

Survey of the Czech Economy and MIT Sectors in 2006



Ministry of Industry and Trade of the Czech Republic

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The Analysis includes data as at 30 March 2007.

LIST OF ABBREVIATIONS

A + PL	Shares and investment certificates
BCPP	Stock Exchange in Praha
BFI	Business Future Index
BLS	US Bureau of Labor Statistics
BUX	Hungarian Stock Market Index
CAC 40	French Stock Market Index
CESI	Central European Stock Market Index
CKA	Czech Consolidation Agency
co.p.	Constant prices
cu.p.	Current prices
CZSO	Czech Statistical Office
DAX	German Stock Market Index
DPFO	Natural person income tax
DPPO	Corporate income tax
ECB	European Central Bank
EIB	European Investment Bank
EMU	Economic and Monetary Union
Fed	US Federal Reserve Office
FTSE	British Stock Market Index
GfK	Market Research Institute in Praha
HICP	Harmonised Index of Consumer Prices
HI-TECH	Technologically highly advanced products
ILO	International Labour Organisation
IPP	Industrial Production Index
M1	Money in circulation + money on current accounts
M2	Total monetary stock
NACE	Industrial classification of economic activities (an international standardised system)
Nasdaq Composite	US Non-stock Market Shares Index
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
p.p.	Percentage point

PPS	Purchasing Power Standard
PX	Main Securities Index in Praha Stock Exchange (the former PX 50)
PX-GLOB	Total Index in Praha Stock Exchange
RM	RM System Index (the former PK-30)
SAX	Slovak Stock Market Index
S&P 500	US Stock Market Index
SCP	Securities Centre
SITC	Standard International Trade Classification
SPAD	System supporting the share and debentures market
SPP	State Treasury Bills
TPCA	Toyota Peugeot Citröen Automobile
VPS	General Cash Administration
VSPS	Labour Force Sample Survey
WIG	Polish Stock Market Index

INTRODUCTION

The Czech economy maintained the record-breaking pace in the growth of a gross domestic product in 2006 and **it increased its economic performance by 6.1%** (identically to 2005). The achieved dynamics classify the country among the fastest growing ones in Europe. Only Baltic States and the Slovak Republic, which achieved the growth of 8.3%, grew faster.

The growth in other countries within the **Eurozone** was significantly slower, but the year-on-year increases in the gross domestic product by 2.6% meant acceleration, when compared with 2005 (when the growth reached 1.4% only). It took place especially at the year end (3.3% in the last quarter), together with the increasing intensity of foreign investments and demands. As the favourite trend showed fully in the development in Germany as well (the faster growth by 3.7% in the last quarter), this development in the external environment made an important factor of which the Czech economy also took advantage.

The domestic economy benefited from the high share of the export and import value in GDP. In 2006, **the export share increased year-on-year up to 66.6%** (from 62.9% in 2005) and the import share increased to 65.5% (from 61.6%). However, the role of external trade weakened in 2006 from the contribution to the economic growth point of view because imports were faster (because of the more pronounced growth in investment demands and the greater dependency of export production on imports).

When compared with 2005, there was a significant change in the structure of product expenditure items. **Domestic demands became newly the main source of the economic growth.** The contribution of the creation of gross capital was 3.2 percentage points and the total final consumption was 2.3 p.p. The contribution of external trade decreased down to 0.5 p.p. (from 4.0 p.p. in 2005).

The creation of gross capital (in constant prices) **increased year-on-year by 12.2%**, while both investments and stock contributed to this fast development. **The faster growth of fixed capital, up to 7.3%** (1.3% in 2005), was based mainly on higher expenditures related to the transport equipment (the growth of 25.1%) and machines and equipment (8.5%). It was the fastest growth of investments in last ten years and it created the potential for the continuation of favourite growth dynamics. The increase of the total **stock** by about CZK 73 billion (in current prices) took place in the material, goods and production stocks.

The final household consumption was also growing faster, when the favourite economic development reflected in **the final expenditures of residents increasing by 4.6%** (2.8% in 2005). As the residents' expenditures grew faster than their disposable incomes (the real growth was 3.4%), a part of this consumption was at the expense of savings. **The level of gross savings** decreased year-on-year by 0.92 percentage points down to 5.14%.

In external trade, **the trend of faster growing exports of goods and services** in constant prices continued (14.6%) **ahead of their imports** (14.2%) in spite of the fact that this lead (thanks to the mentioned more pronounced growth in imports) substantially narrowed, when compared with 2005 (by 5.2 p.p.). The bigger imports reflected in the trade in both goods and services, but the imports were even bigger than exports in the service sector.

The described trends reflected in **the positive balance, at the level of CZK 56.8 billion, of external trade** (in current prices). The trade in goods participated in this balance with CZK 44.4 billion and the trade in services with CZK 12.4 billion. When compared year-on-year, there was basically the identical level of a total surplus achieved, when the improvement in the balance of trade reaching CZK 5.8 billion

(despite the negative impact of about CZK 9 billion caused by the worsening of the terms of trade) was compensated by the worsening, at the same level, in the balance of services.

The trade in goods reported the successful development in the trade with EU countries which participated in the turnover with more than three quarters. The surplus created in the trade with EU (CZK 328 billion) covered the high deficits with other the so-called countries outside Europe (CZK 120.6 billion), CIS (CZK 98.6 billion) and developing economies (CZK 45.4 billion).

The trade in machines and transport equipment was further improving within **the structure of goods**. It increased its share in the total exports to 53.1%. At the same time, it achieved the surplus of CZK 274.4 billion, i.e. the year-on-year increases by CZK 62.1 billion. On the other hand, the deficit related to mineral fuels increased by almost CZK 29 billion (up to CZK 139 billion) thanks to the growing prices (which were not compensated by the strengthening Czech currency).

Despite the favourite development in the balance of trade, **the deficit of the current account in the balance of payment almost doubled year-on-year, up to 4.2% of GDP**, when the balances of all its other parts continued to worsen. The summary result of the balance of payment was positive (the balance of CZK 2.1 billion), but it had been the lowest surplus created since 1993.

On the supply side of the economy, the gross value added increased year-on-year by 6.4% in real terms. Its faster dynamics, when compared with the gross domestic product, were influenced by higher growth in subsidies for products (3.8%) than the tax from the products (3.3%). Industry contributed its highest share to the increased gross value added (the growth by 12.7%). It was mostly the manufacturing industry (14.0%) followed by other industries with high shares in the gross value added like, for example, the trade (8.9%). From the sector point of view, the secondary sector participated in the growth in the gross value added with 4.1 p.p. and the tertiary sector with 2.5 p.p., while the influence of the primary sector was negative (thanks to the year-on-year decrease in the gross value added).

Growth in the industrial production increased up to 9.7% (6.7% in 2005) and broke the existing record increase of 2004 (9.6%). Investments connected with new production capacities, especially in the automotive, electronic and computer industries had the decisive importance. There were structural changes continuing and they reflected in growing industries manufacturing the technologically most advanced products with higher value added (the share of the manufacture of transport equipment reached 21.0% of the total revenue, the manufacture of electrical and optical equipment reached 15.7%, and the manufacture and repairs of machines and equipment reached 8.0%). Despite **the growing employment** (1.0%), the labour productivity grew faster (9.2%) than wages (the nominal growth of 9.0%) and that reflected in the favourite development in unit wage costs.

Constructions were also growing faster (up to 6.6% compared with 4.2% in 2005). The main development factors were the important investment activities in the transport infrastructure and the extensive developers' projects focussed especially on the construction of administrative and multifunctional centres. The favourite situation in the housing loans' market and the expected changes in the VAT rate related to housing constructions influenced the growing number of issued building permits on new flats (8.3%), which reflected in the higher number of constructions in progress within the housing sector.

The economic growth was accompanied with **an improved situation in the labour market**, which reflected in higher household incomes and thus also in their consumption and living standards. Only slight growth in inflation pressures was noticed in the price development.

The level of inflation (the running average in 12 months) **reached 2.5%**, i.e. the year-on-year increases by 0.6 p.p. Its main source was once again the one time adjustment in the administratively determined prices influenced by both internal and external cost pressures (especially by the prices of fuels and energy derived from the development in prices of imported energy raw materials). In contrast, there was the anti-inflation effect of the strengthening Czech currency. The gap between the domestic price level and the average price level in EU did not change much, when **the harmonized consumer price index reached, on average, 2.1% in the year**, while it was 2.2% in EU-25.

The number of workers in the national economy increased year-on-year by 1.3% (to 4 828 thousand people) and had reached the highest level since 1998. Employment grew significantly (by 5%) especially in the manufacturing industry. The secondary sector strengthened its share in the total

employment to 40% and that was the highest share in EU-25. This result was achieved not only because of the industrial traditions of the country, but thanks to the expansion of recent years. On the other hand, the employment structure in the Czech Republic features, when compared with EU, the lower participation of the tertiary sector (the service sector). Its share even weakened by 0.3 point, down to 56.2%.

The registered unemployment rate further declined and **reached 7.7%** on 31 December, i.e. by 1.2 points less than a year ago. The favourite development in the labour market was confirmed also by the fact that the job centres registered 93.4 thousand vacancies at the year end (i.e. the year-on-year increases by almost 80%).

The average monthly gross nominal wage in the national economy reached CZK 19 003, when it **grew by 6.4%** year-on-year (by 3.8% in real terms). In addition to the low inflation expectations, the development in wages has been influenced also by the pressure of the strengthening Czech currency on exporting enterprises, which, trying to remain competitive, have been increasing wage costs only very carefully. The comparison of the development in real wages with the development in the labour productivity indicates that the real unit wage costs decreased year-on-year by 0.6 p.p. The appropriateness of the development in wages is documented similarly by the GDP intensity (the wage volume share in GDP, in current prices) which reached 28.7% and was thus about the same as a year ago.

SUMMARY OF TRENDS IN THE ECONOMIC DEVELOPMENT IN 2006

I. Macroeconomic development

- The fast growth in the economy continued in 2006, when **the gross domestic product rose by 6.1% year-on-year**. Together with the higher employment (by 1.6%), the labour productivity in the national economy grew by 4.4% (the gross domestic product per employee) and ensured thus almost the three quarters of the product growth. **The economic performance increased by 5.8% in the 4th quarter**.
- When compared with the previous year, **the product structure** significantly changed, when the contribution by external trade decreased (it was the main factor in the economic growth in 2005) and was replaced by the growing influence of expenditures on the final household consumption and on the capital creation.
- **Final household consumption**, in constant prices, **speeded up its year-on-year growth to 4.6%** (2.8% in the previous year). As the real disposable income of the residents grew only by 3.4% during the year, the household expenditures took place at the expense of savings (the gross savings rate decreased down to 5.14, i.e. by 0.92 p.p. year-on-year). **Government expenditures for the final consumption slowed down to 0.3%** (from 1.0%).
- The development in investments and in stock contributed to the faster growth in creation of gross capital by 12.2%. **The creation of the gross fixed capital was higher by 7.3% year-on-year**, while especially investments into the transport equipment (25.1%) and into machines and equipment (8.5%) grew in its structure. **The increases in the total stock by CZK 72.7 billion** (in current prices) included the growth in stock of materials by CZK 26.1 billion, goods by CZK 23.7 billion, and in the production stock by CZK 22.9 billion.
- **Exports grew by 14.6% and imports by 14.2%** in the external trade in goods and services (in constant prices). When compared with the previous year, the advance of growth in exports ahead of imports narrowed by 5.2 p.p. This reflected in the lower contribution of the external sector to the economic growth. This development resulted from higher domestic demands and higher imports of raw materials and semi-products.
- **In the branch structure of GDP** (in current prices), the share of **industry** increased up to 32.6% (from 31.6% in 2005), thereof the share of the **manufacturing industry** rose to 26.3% (from 25.9%). The share of **construction** also rose to 6.7% (from 6.6%), but, on the other hand, the share of **agriculture** decreased down to 2.7% (from 2.9%) and especially the share of **the total services** decreased down to 58.0% (from 58.9%).
- The data about **the number of registered economical subjects** indicate the strong increases taking place before 2000, which significantly lowered during the following years because of the high comparative base and stabilisation. This development took place in the number of private entrepreneurs (natural persons), but also in the number of legal persons within which there were fewer state enterprises. Their extent has thus become the minority one.
- From the institutional sectors point of view, the share of households has been decreasing for a long time (even if it still remains the highest) and **the share of private enterprises and corporations has**

been growing. This covers especially **the share of foreign owned enterprises**, which has almost tripled since 1995.

- **The development in 2006** extended the long-term trends. The Register of Economic Subjects registered 2 430 481 units on 31 December and that meant the increase by 1.8% which extended the development in the previous two years. The number of legal persons increased by 5.1%, i.e. by 4.2 p.p. more than the number of entrepreneurs - natural persons. The number of independent **businessmen** increased by 1% and that had been the highest number of the last three years. The number of **independently working farmers** decreased by 1.7%.
- **The number of residents** reached 10 287.2 thousand at the year end, when it **grew year-on-year** by 36.1 thousand. This growth reflected the positive balance of immigration (34.7 thousand) and also the natural increases in the number of residents (1.4 thousand).
- **The number of economically active persons (the labour force)** increased year-on-year by 25.2 thousand, up to 5 199.4 thousand people. **The rate of economic activities**, i.e. the share of the number of economically active people in the number of all persons older than 15 years of age, decreased year-on-year by 0.1 point, down to 59.3%. In contrast, **the employment rate**, the share of people with one or a main employment in the number of all persons older than 15 years of age, increased by 0.3 point, up to 55%, thanks to the increased number of workers.
- **The number of workers in the national economy**, in a single (main) job **increased** year-on-year by 64.1 thousand, **according to the selective survey by CSO**, i.e. by 1.3% to 4 828.1 thousand people. Employment increased in the secondary sector (industry and construction) by 48.9 thousand, up to 1 929.4 thousand, and by 23.4 thousand, up to 2 716 thousand people in the tertiary sector (services). In contrast, employment declined in the primary sector (agriculture, forestry, and fisheries) by 7.7 thousand, down to 181.7 thousand people. According to **the position in the main job**, **the number of employees increased** by 52.5 thousand, to 4 032 thousand, and **the number of workers in the business sector** increased by 16 thousand, up to 779.2 thousand people.
- The total **number of foreigners employed** in the Czech Republic **increased** year-on-year by 33.3 thousand, up to 185.1 thousand people by 31 December. In the structure, **the number of registered people increased**, including the foreigners who did not need a work permit, by 27.1 thousand to 123.6 thousand. **The number of work permits** granted to foreigners from third countries also **increased** by 6.2 thousand, up to 61.4 thousand.
- **The number of foreigners** working as **entrepreneurs on the basis of a business permit decreased** year-on-year by **1.5 thousand, down to 65.7 thousand people**. **The total number of business people**, registered in the Czech Republic as both natural and legal persons, reached 2 030.8 thousand people at the year end. It **increased year-on-year** by 24.9 thousand people (by 1.2%).
- During the year, **the registered unemployment rate** decreased, with the exception of seasonal fluctuations, **and reached 7.7% on 31 December**, when it was lower by 1.2 points, when compared with the year ago. On average, it decreased year-on-year by 0.9 point, down to 8.1%. **The number of job seekers decreased** by 61.9 thousand at the year end year-on-year, i.e. by 12.1% to 448.5 thousand. **The number of unemployed women** decreased only by 26.9 thousand, down to 238.7 thousand and their share in the total number increased by 1.2 points to 53.2%.
- **By regions**, the highest unemployment rates were reported by the Ústí (13.8%) and by the Moravian-Silesian region (12.6%). The lowest rate was in Praha (2.7%). The highest decrease in the number of job seekers took place in the Moravian-Silesian region (by 11.1 thousand). **By districts**, the highest unemployment rate was in the District of Most (19.5%) and the lowest one was in the districts of Praha-East and Praha-West (2.1%).
- There were 93.4 thousand **vacancies** on the labour market at the year end (by 41.3 thousand more year-on-year). By regions, the highest number of vacancies was in Praha (16.2 thousand) and the lowest number was in the region of Karlovy Vary (2.4 thousand). At the year end, one vacancy related to 4.8 candidates (9.8 a year ago). The highest number was in the District of Karviná (34.2) and the lowest number in Praha-East (0.9).
- In **the structure** of unemployed, people older than 50 years of age remain the most threatened

group and their share increased by 1.9 p.p. to 27.1%. They are followed by people with low level of education and long-term unemployed.

- There was CZK 7.5 billion spent on **the active employment policy** in 2006, according to the treasury spending of the state budget, i.e. by 18.1% more year-on-year. There was CZK 7.4 billion spent in the same period on **the passive employment policy**, i.e. for unemployment benefits, and it was by 3.5% more year-on-year.
- **The average monthly nominal wage of employees in economic subjects, within the enterprising sector with 20 or more employees** (in banking and insurance companies with disregard to the number of employees) and in all organisations within the non enterprising sector, **increased** by 6.5% to CZK 20 211 and **the real wage increased** by 3.9%. The average **nominal wage of employees in the national economy** (including the estimate of small companies) **increased** year-on-year by 6.4% to CZK 19 003 and **the real wage increased** by 3.8%. **The GDP wage intensity** reached 28.7% and it was about the same as a year ago.
- After the pace of the inter-annual growth in **the consumer prices** got faster in January (by 2.9%, 2.2% in December 2005), the inflation stabilised at that level. It declined to 1.3% in October and it was again slightly increasing by the year end (1.7% in December). In 2006, the main inflation sources were once again the one time adjustments in the administratively determined prices, especially the prices of fuels and energy, which depended on the development in prices of imported energy raw materials. The strengthening of the Czech currency acted against the inflation throughout the year.
- **The inflation rate** (the running average of 12 months) had thus maintained its growing trend until the end of September (from 1.9% in December 2005 to 2.8% in September). It progressively lowered in the following months (to 2.5% in December and down to 2.4% in January 2007).
- **Industrial producer prices** had started to rise in April, after the stagnation at the average year-on-year growth of 0.3% in 1st quarter 2006. They grew to 2.7% in August, but they slowed down to 1.9% in October. They grew again by 2.6% in December (by 2.8% in January 2007). The year average was 1.6%.
- **Construction work prices**, influenced by the continuing boom in the industry, were growing at the stable and dynamic pace in 2006. They grew year-on-year in December by 3.2% and the average, since the beginning of the year, was the growth by 2.9%. In contrast, **the prices of materials and products used in construction**, which followed the development in industrial producers prices, significantly slowed down their growth in 2006 - down to 1.3% year-on-year on average.
- **Agricultural producer prices** changed the trend at the end of 1st quarter and continuously grew during the following months in 2006 (by 4.9% in December year-on-year). The cause could be found in volatile **prices of plant products** which started growing, after the year-on-year decrease in January, up to 23.5% in December. In contrast, **prices of animal products** were maintained below the level of the previous year throughout the year (by 3.9% in December).
- **Prices of marketed services within the production sector** had been maintaining the trend of the relatively high year-on-year growth since the beginning of 2006 (by 3.9% year-on-year in December). The highest growth in prices was reported, in December, by business services and by services in the area of property and leasing (by 5.9%) followed by the prices of water deliveries (by 5%).
- **The state treasury activities** were developing in a fluctuating way during the year and they finished the year with the deficit of CZK 97.58 billion (i.e. 3.0% of GDP). It had been the second worst result since 1993 meaning the worsening by CZK 13.87 billion, i.e. by 16.6%, when compared with the approved budget.
- **The budget balance of regions and municipalities** finished with the deficit of CZK 3.9 billion, thereof CZK 2.2 billion belonging to the regions. The total income was CZK 359.5 billion (the budgetary performance of 98.3%). The used expenditures had the volume of CZK 363.4 billion (the budgetary performance of 97.0%). Municipalities and voluntary groupings participated in the total income with 68.3% and in expenditures with 68.1%.
- **The public budgets** (including net borrowing) reached the volume of CZK 142.1 billion (the surplus

of CZK 0.6 billion in the previous year). It had been the highest deficit yet. Apart of the health insurance and the Land Fund of the Czech Republic, all subjects in the government sector contributed to the worse results. The state budget had the most significant impact.

- The long-term trend of growth of **the state deficit**, started in 1997, continued also in 2006, when the deficit had increased by CZK 111.3 billion to CZK 802.5 billion since the year beginning (i.e. by 16.1% year-on-year). **The internal debt** deepened significantly - by CZK 99.2 billion to CZK 680.9 billion. The external debt increased by CZK 12.2 billion, up to CZK 121.6 billion.
- In 2006, **the money supply** increased its dynamics in the year-on-year growth started at the end of 2005 (from 8% to 9.9%, i.e. to CZK 2 188.6 billion in December 2006). The growth was slowed down briefly in the 2nd quarter because of the declining growth in the net foreign assets (down to 7.8% in May).
- The favourite conditions on funding ensured the continuation of the trend of the high pace in the growth of **clients' loans** (by 20.5% in December, up to CZK 1 286.3 billion, while it increased by 20% in December 2005). The pace of growth in **the loans to the business sector** had been reaching two digit values for the second year in a row (year-on-year by 14.8% in December up to CZK 745.6 billion, by 13.2% in December 2005). **Loans to households** maintained the trend of high growth and its pace. However, it had slowed down since the 2nd quarter and decreased below the level of 30% in December 2006 for the first time in 32 months (down to 29.4%, i.e. to CZK 540.7 billion from 32.5% in December 2005).
- **The Czech currency (crown)** had been continuously strengthening for two and a half year. On 20 December, it achieved its historical maximum with the exchange rate of CZK 27.420/EUR and it appreciated on average year-on-year by 4.8%. Towards **the dollar**, it progressively corrected its short-time weakening taking place at the end of 2005 and it had started its appreciation trend since April again. This appreciation peaked with the record-breaking exchange rate of CZK 20.761/USD on 20 December. It appreciated year-on-year by 5.6% on average.
- The balance of all accounts within **the balance of payments** was positive in 2006 (CZK 2.1 billion, i.e. USD 0.1 billion), but it was the lowest annual inflow of resources in the history of the Czech Republic. As the inflow of resources to the **financial account** (CZK 111.6 billion, i.e. USD 4.9 billion and 3.5% of GDP) could not cover the growing deficit of the **current account** (CZK 133.8 billion, i.e. USD 5.9 billion and 4.2% of GDP), the final positive result was generated within the item of differences from exchange rates, mistakes and omissions (CZK 15.6 billion, i.e. USD 0.7 billion).
- **The foreign currency reserves** were mostly decreasing in 2006, down to CZK 656.6 billion at the year end (i.e. the year-on-year decrease by CZK 70.1 billion). In the dollar terms, thanks to the variations in exchange rates, they increased to USD 31.5 billion (i.e. by USD 1.9 billion). They covered 3.3 monthly imports of goods and services (4.2 at the end of 2005), while 3 months coverage is considered safe.
- **The gross indebtedness abroad** maintained its long-term growing trend. It reached CZK 1 217 billion on 31 December 2006, i.e. USD 58.3 billion. It had been the highest level since 1993. The level of the foreign debt exceeded 38% of GDP (38.5% at the end of 2005) and remained below the generally recognised „safe“ limit of 40%.
- **The foreign direct investments reached the value of CZK 134.7 billion in 2006, i.e. about USD 6.0 billion** (the year-on-year decrease by CZK 144.5 billion caused by the high comparison base resulting from incomes from the sales of the state shares in Unipetrol and in Czech Telecom in 2005). The re-invested profit equalled CZK 82.1 billion (USD 3.6 billion). Equity investments were CZK 35.5 billion (USD 1.6 billion) and the other capital was CZK 17.1 billion (USD 0.8 billion).
- **The majority of foreign direct investments (CZK 118.7 billion) originated in countries of EU-25.** The biggest investments came from Luxembourg (CZK 29.1 billion) followed with Germany (CZK 26.2 billion), Austria (CZK 18.9 billion), the Netherlands (CZK 15.0 billion), Cyprus (CZK 12.5 billion), and the United Kingdom (CZK 11.9 billion). The investments went mainly to **the manufacturing industry** (CZK 49.5 billion), but also to properties and services for businesses (CZK 44.2 billion), to the trading and repairs, and to the financial mediation.

- **The outflow of foreign direct investments from the Czech Republic reached CZK 30.4 billion in 2006, i.e. USD 1.3 billion.** It included mostly equity investments worth CZK 22.1 billion (USD 1.0 billion), the re-invested profit was CZK 7.2 billion (USD 0.3 billion). Czech companies invested mostly in the countries of EU-25, specifically in the Netherlands (CZK 11.6 billion), the Slovak Republic (CZK 2.3 billion), and Germany (CZK 2.2 billion). **From the branch point of view, the majority part of the investments went to industry,** specifically to the energy industry (CZK 18.2 billion) in connection with activities of ČEZ abroad and to the manufacturing industry (CZK 2.0 billion).
- **Index of the Praha Stock Exchange PX** extended the previous high growth, but it grew at a slower pace in 2006 (by 7.9%) and finished the year with 1 588.9 points. **The trading volumes on the share market** had reached the second highest value in the history (CZK 849.0 billion), but they stayed behind the maximum achieved in 2005, when compared year-on-year, by 18.5%. **The debenture trading** reached CZK 598.9 billion and increased year-on-year by 12.3%.
- **Financial results of organisations in the non-financial sector** (with 100 or more employees) speeded up the year-on-year growth, which was influenced both as a whole and in its structure, by organisational changes taking place in the energy and gas industries. **The selected financial indicators recorded the following year-on-year development:**
 - **Book value added** speeded up the growth from 6.3% (in 2005) to 11.9%. It grew mostly in the business and other services (by 26.1%) followed by the trading (by 17.6%), construction (by 16.4%), industry (by 11.1%), agriculture, forestry, and fisheries (by 4.7%), transport, warehousing, and communications (by 4.4%), and in accommodation and catering (by 1.1%).
 - **Labour productivity based on the book value added** (in current prices) increased year-on-year by 9.3%, up to CZK 697.1 thousand per employee, while employment grew by 2.4%.
 - **Gross profit** grew by 26.8%, up to CZK 336.7 billion. It grew mostly in trading, agriculture, forestry, and fisheries (by 59.1%, by 59% respectively) followed by the business services (by 36.3%), construction (by 28.3%), industry (by 28.2%), and transport, warehousing and communications (by 4.5%). It decreased year-on-year in accommodation and catering (by 11.1%) and in other services (by 21.9%). Losses decreased by 14.1% and the number of loss making organisations by 4%.
 - **Total revenues** grew faster (14%) than **the total costs** (13.3%). The biggest item - the output consumption grew by 18.6%. Its share grew by 2.5 p.p., to 56.3%.
 - **Stock** speeded up the year-on-year growth to 10.4%. The biggest increases were reported by the stock of products (by 20.6%) and by the stock of materials (by 12.8%) followed by the stock of production in progress (by 10.5%) and the stock of goods (by 0.9%). **Turnover of stock** accelerated by 1 day to 31.2 days.
- **The number of proposed bankruptcies and settlements** grew year-on-year by 8.9% to 4 227 cases. **There were 1 245 declared bankruptcies** (thereof 7 settlements), i.e. by 0.7% more year-on-year. **The number of processed bankruptcies increased** year-on-year by 4.8% to 5 106. They included 1 536 rejected bankruptcy proposals because of the lack of assets. That was by one third more year-on-year.

II. Industry

- **Main production characteristics in industrial organisations with 20 or more employees:**
 - **The industrial production** achieved the growth of 9.7% in 2006 (the highest increase since the founding of the independent Czech Republic). Revenues of industrial companies (in constant

prices) increased by 10.3%, while the revenues from direct exports (in constant prices) by 11.6% (they participated in the total revenues of industry with 54.2%).

- The dynamic growth was supported by **the investments related to new manufacturing capacities put into operations**, especially in the automotive, electronic, and computer industries. In parallel, there were also with subcontracts connected industries developing (the electric equipment of cars, the plastic and rubber industry). Increased demands reflected positively in growth in the traditional mechanical engineering industry and in the recovery of the metallurgical production.
- Classified by **the main industrial groupings, the manufacture for long-term consumption** was developing fast with the year-on-year growth by 27.6% supported by the growing consumer demands initiated by increasing incomes. The high growth was also reported by the manufacture for investments (18.3%). The manufacture of semi-products increased by 7.3%.
- **Production of the manufacturing industry** increased by 10.5%, the revenues (in constant prices) by 10.9%, and the revenues from direct exports (in constant prices) by 11.2% (they participated in the revenues from sales of own products and services with 58.2%). High growth in production was reported also by the manufacture of transport equipment (by 20.6%), the manufacture and repairs of machines and equipment (by 18%), the manufacture of electrical and optical equipment (by 16.3%), and the manufacture of plastic and rubber products (by 14.6%). On the other hand, the manufacture of textiles, textile products and clothes decreased by 1.6%. The main decline took place in the manufacture of clothes (by 20.1%).
- The production was **higher** by 2.1% in **the raw material section**. Revenues (in constant prices) increased by 10.4% and the revenues from direct exports (in constant prices) by 102.5%. The production in **the energy section** increased by 2%, while revenues (in constant prices) increased by 1.7% and the revenues from direct exports (in constant prices) by 11.2%.
- The high growth in the industrial production corresponded with dynamics of **newly concluded orders** (monitored in selected parts), which grew by 18.8% (they participated in the total revenues with 60.8%). The foreign orders increased by 16.5% (the share of 63.3%) and the domestic orders grew by 22.9% (the share of 36.7%). The revenues within these selected parts (in constant prices) were higher by 12.7%.
- **The manufacturing industry played the decisive role** within the total revenue of industry with the share of 92%. The year-on-year growth was 0.5 p.p., the share of the energy section decreased by 0.5 p.p., down to 5.9%, and the share of the raw material section stagnated at 2.1%.
- The dynamic increases in the production and the fast growth in new orders reflected in **increasing employment (by 1%)**. **The manufacturing industry** participated in this with the increase by 1.5%, while employment decreased in the energy section by 5.2% and in the raw material section by 2.9%.
- The high growth in revenues despite the improvement in the total employment reflected in the growing **labour productivity by 9.2%**. The raw material section reported the increase by 13.7%, the manufacturing industry by 9.3%, and the energy section by 7.3%.
- The favourite growth in the labour productivity allowed companies increases in **the average nominal wages** by 6%. The energy section reported the increase by 8.1%, the raw material section by 7.6%, and the manufacturing industry by 6%. **The real wage was higher** by 3.4%. When recalculated with the consumer prices index and the industrial producer prices index, the increase equalled 4.3%.
- **The growth in labour productivity was ahead of the real wage** recalculated with the industrial producers' price index by 4.9 p.p. It was by 6.7 p.p. in the energy section, by 6.1 p.p. in the raw material section, and by 4 p.p. in the manufacturing industry. **Unit labour costs** decreased - **the nominal ones** by 2.9% and **the real ones** by 4.5%.
- **Within the size structure** of industrial enterprises, **the highest increases in revenues took place in organisations with 3 000 - 3 999 employees**. They grew by 68.2% (the share increased by 1.5 p.p., up to 4.6%). This group got extended with the new car manufacturing plant TPCA Kolín.

Lower revenues were reported by the three size groups (20 - 49, 50 - 99, and 4 000 - 4 999 employees).

- Within the structure of industrial enterprises by **institutional sectors**, the high performance was maintained in **private foreign owned companies**, the main companies of which made their entry to foreign markets easier. This created good export conditions for them. Their **revenues** (in constant prices) **increased** by 18.4% (the share grew year-on-year by 3.9 p.p., up to 58.7%) and the revenues from direct exports (in constant prices) grew by 15.2% (the share of the sales of own products and services in the total revenues of the sector equalled 67.7%).
- **Gross tangible investments grew year-on-year in industry only slightly by 1.5%** (in constant prices), especially thanks to the high comparative base in 2005. Investments in buildings and constructions (with the share of 30.1%) decreased by 5.8%, investments into machines and equipment (with the share of 68.2%) increased by 3.1%, and other investments (with the low share of 1.7%) grew by 15.0%.
- **Investments lowered year-on-year in the manufacturing industry by 0.6%.** The most significant change occurred in the manufacture of transport equipment (by 31.5%) followed by the manufacture of chemicals, preparations and fibres, the manufacture and repairs of machines and equipment, and the manufacture of other non-metallic mineral products. In contrast, high growth (by 55.8%) was reported in relation to investments into the manufacture of coke and refinery oil processing, but with the minimal share (of 0.8%) in the total volume of industrial investments.
- **In the energy industry, investments grew slower year-on-year by 3.8 p.p., up to 7.9%. In the extraction of mineral materials, there was the growth by 24.7%** reported in the followed up period.
- **Intangible investments increased year-on-year in industry by 41.8%.** The industry was significantly influenced by the growing trade in emission permits.
- **The total book value added** in industry (including the estimate of small subjects with 19 or fewer employees) speeded up its year-on-year growth from 5.6% to 12.2%, while **the output consumption** (18.8%) stayed ahead of **outputs** (17.1%).
- **Dynamics in financial results of industrial organisations with 100 or more employees** were influenced by the restructuring in the energy and gas industries. **Their year-on-year development was as follows:**
 - **Book value added** (in current prices) increased by 11.1%, especially with the high growth in the energy industry (by 20.2%), in the manufacturing industry (by 9.7%), and in extraction of raw materials (by 4.4%). Outputs grew slower (17.5%) than the output consumption (19.6%).
 - **Labour productivity based on the value added** (in current prices) grew by 10.6%, while employment increased by 0.5%. It increased significantly in the energy industry (by 28.6%), where employment lowered by 6.6%, and in the manufacturing industry by 8.5%, where employment increased by 1.1%.
 - **Gross profits** grew by 28.2%, up to CZK 237.8 billion, thanks to their growth in the energy industry (by 52.2%) and in the manufacturing industry (by 24.3%), while they decreased by 6.7% in extraction of raw materials. Profit making organisations participated in the growing balance of gross profits. Their number increased by 3.8% and their gross profits increased by 23.1%, up to CZK 263 billion. The volume of losses decreased year-on-year by 10.8% and the number of loss making organisations by 9.3% (they made up 22% of the total number of organisations).
 - **Revenues** grew faster in industry (16.6%) than **costs** (15.9%), thanks to the manufacturing industry (10.9% compared with 10.2%). The growth of costs in the energy industry was faster (66.1% compared with 64.4%). The pace of growth in the costs was influenced by the output consumption (the growth by 19.6%), while it grew by 81.1% in the energy industry. The share of output consumption in the structure of costs reached 71.2%.
 - **Assets/Liabilities** speeded up their growth year-on-year to 15.9%, while they grew in the energy industry by 31.8%, in extraction of raw materials by 20.7%, and in the manufacturing industry by

9%. **The return on equity** increased by 1.9 p.p., to 16.1%. It grew especially in the manufacturing industry (by 2.2 p.p.) to 18.4%.

- **Total stock** grew year-on-year by 14.2%, to CZK 303.2 billion. It grew in the energy industry by 209.4% and in the manufacturing industry by 9.2%, while it lowered by 2.6% in extraction of raw materials. Within the structure, the stock of products reported the highest growth of 26.3% and it was followed by the stock of materials (by 12%), production in progress (by 10.3%), and the stock of goods (by 4.7%). **Turnover of stock** was faster by 0.7 day and reached 35.4 days.
- **Enterprises within the foreign owned sector** strengthened their position in the industrial results and speeded up the growth of financial indicators year-on-year. The growth of financial indicators (especially the flows) was significantly slowed down in the sector of private national enterprises.

III. Construction

- **Construction speeded up its growth pace** year-on-year from 4.2% to **6.6%** (in constant prices). **Sources of the growth** were important investment projects in the transport infrastructure, extensive developers' construction projects focussed mostly on the construction of administration and multifunctional centres, and the intensive housing constructions.
- The production characteristics of construction **enterprises with 20 or more employees** show that:
 - **Construction works** (in constant prices) **reported the year-on-year growth by 6.6%** with the share of 69.3% in the industry. New constructions, reconstructions and modernising increased by 6.0% and repairs and maintenance by 6.3%.
 - **Construction works abroad grew fast by 73.7%** (within the low share of 2.5% in the total volume of construction works).
 - **Labour productivity grew by 6.3% with increasing employment by 0.3%.**
 - **Growth in the labour productivity got ahead of the growth in the average monthly real wages** (recalculated with the construction works' index) **by 2.0 p.p.**
 - **The number of issued building permits lowered year-on-year by 5.3%**, down to 135 391, but **the orientation value of constructions grew by 10.8%**, up to CZK 360.9 billion. **The average value of one building permit increased by 17.0%** to CZK 2.7 million.
- v The construction production was higher by **29.2%** year-on-year in January 2007 thanks to the extraordinarily favourite climatic conditions.
- **The total financial results in construction** (including the estimate of organisations with up to 19 employees) **improved within the context of the growing production, when the book value added increased** year-on-year by 12.9% (by 4.2% in the same period a year ago). The growth in output consumption was identical with the growth in outputs (13%).
- **Construction organisations with 100 or more employees** have maintained their share in the total outputs at the level of almost one half. Their financial results developed as follows:
 - **Book value added** grew year-on-year by 16.4%, to CZK 49.7 billion. **The labour productivity based on the book value added per employee increased** by 15.3% (in current prices) to CZK 647.3 thousand with the slight increase in the number of employees.
 - **Profits before tax had been growing for six years in a row.** In 2006, they increased year-on-year by 28.3%, to CZK 14.7 billion. The growing profits were positively influenced by the production factor (the growth by CZK 3.6 billion) and negatively influenced by the non production factor (the decrease by CZK 0.3 billion). The share of loss making organisations increased by 0.3 p.p. to 14.9% and their losses increased by a third, to CZK 1.1 billion.

- **The total costs** grew slower than the profits. Their growth was influenced especially by the growing output consumption (by 16.4%), which increased its share in the total costs by 0.5 p.p., to 81%. Personal costs increased by 10.6% and other not specified costs by 25.5%.
- The stock situation increased at the year end year-on-year by 11.5% to CZK 15.6 billion and its turnover was faster by 0.7 day and equalled 14.9 days.
- Foreign owned enterprises have been achieving better effectiveness for a long time. The improvement took place also in **private national enterprises**.

IV. External trade

- Results of **the foreign trade** reflect the economy growth and its openness. **The importance** of the foreign trade results from **the high share of exports of goods in GDP**. In current prices, exports participated with 66.9% and imports with 65.5% and that meant the improvement of exports year-on-year by 4 points and in the case of imports by 3.9 p.p.
- **The foreign trade** finished for the second year with **the surplus** reaching CZK 44.4 billion (i.e. with CZK 5.8 billion more year-on-year). **The turnover achieved the record-breaking value** of CZK 4 243.6 billion. This included exports worth CZK 2 144 billion and imports worth CZK 2 099.6 billion. The dynamics were the two digit ones, when both exports and imports grew identically by 14.7% (the paces were significantly slower in 2005).
- **The terms of trade** had a **negative impact** and the growing import prices (by 0.8%) and declining export prices (also by 0.8%) reached on average 98.4 in the year. This resulted in only the negligible year-on-year improvement (by 0.1 point). When compared with 2005, the development in prices had a smaller impact on the balance of payments. In constant prices, the growing exports and imports were higher than in current prices. Exports increased year-on-year by 15.9% and imports by 15.4%.
- **Value results expressed in crowns** were **influenced by the year-on-year strengthening of the crown towards both dollar and euro** (by 5.6%, by 4.8% respectively). That was the reason why the exports and imports' dynamics, expressed in USD and EUR, were higher than in crowns (exports increased by 22% in the dollars and imports by 22.1%, while the growth in exports and imports was identical in euros at the level of 20.5%). Exports achieved USD 95.1 billion (75.7 billion in EUR) and imports reached USD 93.2 billion (74.1 billion in EUR). The positive balance of payments was USD 1.9 billion, or EUR 1.6 billion. It was the year-on-year improvement by 0.3 billion in both currencies.
- The total **exports** increased year-on-year by CZK 275.4 billion and increased in all territorial areas even if at a different pace. **Advanced market economies** participated in the additional exports with 88% even when their share got slightly weaker with 90%. The advanced market economies participated in the **additional imports**, worth CZK 269.6 billion, with two thirds. One quarter was made up by countries outside Europe and CIS.
- **The level of the balance of payments surplus** (CZK 44.4 billion) was influenced mostly by growing assets related to the advanced market economies, especially EU (by CZK 55.9 billion to CZK 328 billion). This **surplus covered high losses** especially in the trade with countries outside Europe (the deficit reached CZK 120.6 billion), CIS (CZK 98.6 billion), and developing economies (CZK 45.4 billion).
- **Machines and transport equipment** strengthened their dominant position with the volume of CZK 1 138.9 billion in exports, thanks to the year-on-year growth by 20%. Imports increased by 17.3% to CZK 864.6 billion. The export share grew by 2.3 p.p., to 53.1%, and the import share increased by 0.9 p.p., to 41.2%. The surplus increased by more than a quarter to CZK 274.4 billion. In contrast, **the balance of market products** significantly worsened and the surplus decreased from CZK 32 billion down to CZK 19.4 billion, mostly because of the prevailing imports.

- **The highest deficit occurred in mineral fuels, lubricants and related materials, which deepened** by CZK 28.8 billion to CZK 139 billion. This was caused by the growing import prices of fuels by 12.8%. The second highest deficit belonged to **chemicals and related products**. It increased by CZK 7 billion to CZK 89.5 billion. The deficit in the balance of payments of **food** increased by a quarter to CZK 26.1 billion.
- The structure by the expected **way of use** shows the fastest increases in **imports for the investment utilisation** (by 20.9%). Their share increased by 1.5 points to 29.1%. The dominant position belonged to **the imports for utilisation in manufacture**, which made up one half of all imports because of the year-on-year growth by 13.6%. The lowest growth was reported by imports for personal consumption (by 9.7%).
- **The share of HI-TECH products increased year-on-year in exports** (by 1.2 p.p. to 13.4%) and **in imports** (by 0.6 p.p. to 14.9%). The deficit of these products decreased year-on-year by CZK 9.5 billion, down to CZK 25.2 billion. The highest export and import item was made up by **the computing technology**, which achieved in exports the value of CZK 161.7 billion and in imports CZK 132 billion. The second strongest item within this grouping was made up by **electronic and telecommunication products**.

V. Internal trade and final household consumption

- The trading activities are mainly characterised by **the revenue from sales of goods and services**. They reached CZK 2 886.8 billion in current prices without DPH (VAT) and **increased year-on-year by 5.8%**. The growth was differentiated in all trading areas. The revenue increased **in the automotive segment** by 7.2%, **in retailing** by 6.1%, and **in wholesale** by 5.4%.
- The fast **growth in revenues of big retail companies**, with more than 100 employees, continued (by 10.2% year-on-year), while **revenues of companies with a lower number of employees increased** year-on-year by 2.9%. **Big trading companies increased their shares in the total revenue** in all trading segments to 36.5% (the biggest share was in the retail trading at 45.5%). However, small trading companies still kept their important position in the structure of trading formats.
- **The outputs** increased in the entire industry by 8.6%, **output consumption** by 7.8%, and **the book value added** by 9.6%. **The trading margin** increased by 0.5 p.p. to 15.9%. It was mostly in **the wholesale** by 0.6 p.p. to 14.4% and the smallest increases took place in **the automotive segment** by 0.1 p.p. to 10.4% and in **retail**, where it increased by 0.4 p.p. to 22.0%.
- The revenue growth and good profits were accompanied with **the growth in employment**. The number of workers (including entrepreneurs and co-operating household members) increased year-on-year by 1.7% to 718.8 thousand people and that exceeded the 12% share in the total employment in the Czech Republic.
- **Consumer demands were characterised by the physical volume of sales** in retail, including items for motorists (NACEs 50 and 52), which **increased year-on-year by 6.4%** in constant prices. It had been the biggest growth since 1997 (i.e. since the beginning of the comparative time line). This reflected the stronger purchase power of consumers. **Retail revenue** increased by 6.5% and **revenues of the automotive segment** grew by 6.3%. The record-breaking revenue of the retail was mainly supported by sales of textiles, shoes, furniture, and electric appliances.
- **Current incomes** increased year-on-year in the household sector by 6.2% and reached CZK 2 396.8 billion. **Current expenditures** (especially taxes and insurance premiums) increased year-on-year by 7.0% to CZK 780.5 billion. **Disposable income** determined either for the coverage of consumption or for the creation of savings increased year-on-year by CZK 88.4 billion, i.e. by 5.8% and reached the volume of CZK 1 616.3 billion.

- **Household consumption** increased, especially thanks to attractive offers and accessibility of consumer credits, faster (7.0% in current prices) than **disposable incomes** and the result was the year-on-year **decrease in the level of savings** (the volume of gross savings to disposable incomes ratio) from 6.1% to 5.1%. This has signalled **the growing trend towards consumption**.

I. MAIN TRENDS IN THE MACROECONOMIC DEVELOPMENT

I.1 Performance of the economy

In 2006, the fast pace of economic growth continued and **the gross domestic product increased year-on-year by 6.1%** (and reached CZK 2 776.4 billion in constant prices of 2000). While employment grew by 1.6%, the labour productivity in the national economy (the gross domestic product per worker) increased by 4.4% and ensured thus the product growth by almost three quarters.

The pace of growth in the Czech economy...

The Czech economy has been growing continuously since the beginning of 1999. **The year-on-year growth of the gross domestic product peaked in last two years**, when it reached in both years identically 6.1%. In 2005, the Czech Republic got ahead of **Slovakia**, and became, for one year, the fastest growing economy in the region of Central Europe. However, it stayed behind its eastern neighbour with the average of last five years at the growth level of 4.4% (by 0.6 p.p.). When compared with countries in the Eurozone (1.5%), there were higher dynamics in the economic development achieved, in the period, also in other countries within the region, i.e. in Hungary (4.3%, it grew the fastest in 2002) and Poland (3.9%).

... has belonged among the fastest in Europe

The year-on-year **growth in the Czech economy** got progressively slower in 2006 and **reached 5.8% in the 4th quarter**. Compatible data (after the exclusion of seasonal effects and the influence of the number of working days) indicate the stabilised economic development of the quarterly pace of 1.4% in all year quarters.

The GDP growth culminated in 4th quarter of 2005

The gross domestic product, in current prices, increased year-on-year in 2006 by 7.9% and got over CZK 3 trillion (CZK 3 204.1 billion) for the first time. The faster growth, when compared with the previous year (6.8%) reflected the slight speeding of the price development. While the price level (expressed with the implicit GDP deflator) increased by only 0.7% in 2005, the price development got progressively faster in 2006 and achieved 1.7% for the year. This result was achieved with the price growth in the total consumers' expenditures by 2.8%, the price growth in the creation of gross capital by 0.8% and the bigger decline in prices of exported goods and services (-1.1%) than their import prices (-0.5%) (graph I.1.1).

Prevailing nominal growth related especially with the price development in the consumer market

The price development in the foreign trade showed in **worse terms of trade** in goods and services levelling at 99.4. The worsening was, however, lower than in 2005 (98.2). **The growing indicator of the real gross domestic income** (which covers the influence of terms of trade within the foreign trade) **got thus faster to 5.5%** (when compared with 4.7% in 2005).

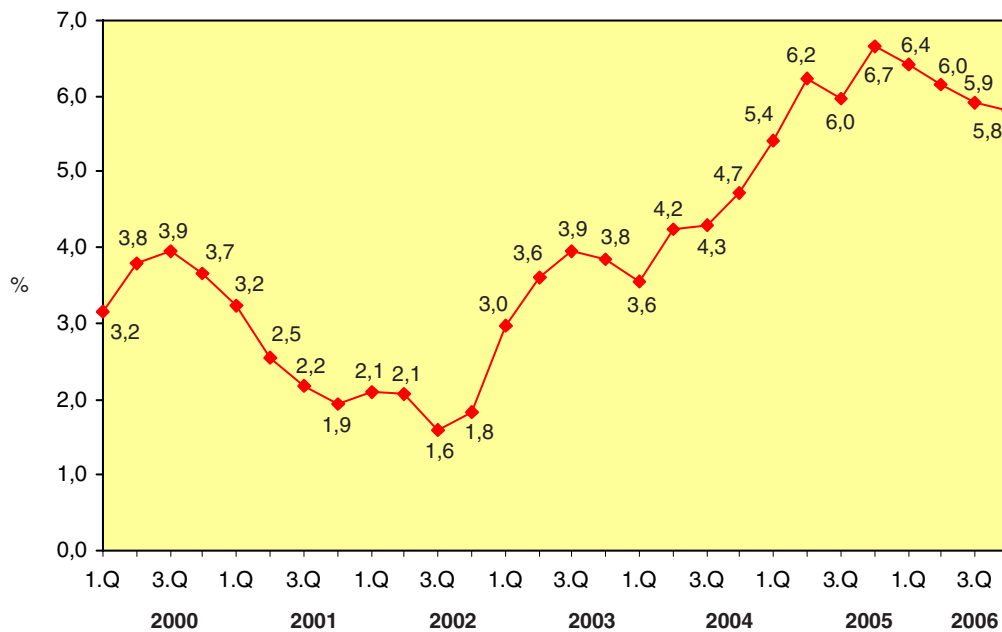
When compared with the previous year, **the product structure significantly changed**, when the contribution of the foreign trade decreased (it was the main factor of the economic growth in 2005) and was replaced with the growing impact of costs on the final household consumption and on the capital creation.

Domestic demands took over the role of the main source of growth...

The final household consumption, in constant prices, **speeded up its year-on-**

... especially the final

Graph I.1.1 Gross domestic product (the year-on-year change in %, constant prices)



Source: CZSO, MIT graph

*household
consumption and...*

year growth to 4.6% (compared with 2.8% in the previous year). Its development accelerated also during the year and the increase by 5.4%, achieved in the 4th quarter, presents the highest dynamics of the last three years. As the real disposable income of the population increased by only 3.4% in the year, the household expenditures took place to the detriment of savings (the level of gross savings lowered down to 5.14, by 0.92 p.p. year-on-year). **Government expenditures related to the final consumption slowed down to 0.3%** (from 1.0%) thanks to the influence of the high comparison base including also the purchase of Gripen jets.

*... the creation of
gross capital*

The development in investments and in stock contributed to the fast-growing creation of gross capital (by 12.2%). **The creation of gross fixed capital increased year-on-year by 7.3%**. In its structure, they were especially the investments into transport equipment (25.1%) and machines and equipment (8.5%). Faster growing investments (there was the increase by only 1.3% in 2005) further strengthened the production potential of the economy as the prerequisite for the maintenance of the favourite growth dynamics. **The increase of the total stock by CZK 72.7 billion** (in current prices) included the increases in the material stock by CZK 26.1 billion, in the stock of goods by CZK 23.7 billion, and in the production stock by CZK 22.9 billion.

*The impact of net
exports on the
economic growth
lowered*

Within the foreign trade in goods and services (in constant prices), **exports grew by 14.6% and imports by 14.2%**. When compared with the previous year, the prevalence of growing exports over imports narrowed by 5.2 p.p. and that showed in the lower contribution of the external sector to the economic growth. This development resulted from the faster growth in investment demands and in the increased dependency of export production on imports.

The trading in goods participated in **the surplus in the balance of foreign trade** (in current prices) **worth CZK 56.8 billion** with CZK 44.4 billion and the trading in services with CZK 12.4 billion, when the year-on-year improvement in the positive balance of trade (by CZK 5.8 billion) was compensated by the practically equal worsening in the balance of services.

*The accelerated
growth of the Czech
economy was*

The structure of the economic growth had significantly changed in recent years. The calculations of **the GDP contribution analysis** show the following:

Table I.1.1 Aggregate demands and their parts in 2006

	Current prices in billion CZK	Y-o-y change in % (constant prices)		
		2005	2006	4th Q. 2006
Final consumption	2 268.9	2.3	3.2	4.6
- households	1 555.9	2.8	4.6	5.4
- government	691.7	1.0	0.3	2.6
- non profit organisations	21.4	3.6	4.7	3.0
Gross capital creation	878.3	1.6	12.2	11.1
- fixed capital	803.0	1.3	7.3	7.6
Exports of goods and services	2 413.3	10.4	14.6	17.4
- goods	2 144.0	11.6	16.2	18.1
- services	269.3	2.2	2.6	12.4
Imports of goods and services	2 356.4	4.8	14.2	18.1
- goods	2 099.6	5.7	15.4	18.5
- services	256.8	-1.8	5.2	14.9
Net exports	56.8	4.0 ^{x)}	0.5 ^{x)}	-0.3 ^{x)}
Gross domestic product	3 204.1	6.1	6.1	5.8

Source: CZSO

^{x)} Contribution to GDP change

Note: There are some deviations in data sums, in decimal positions, thanks to the rounding.

- **In 2003**, the year-on-year economy growth, up to 3.6%, was supported by the growing final consumption (the contribution of 4.7 p.p.) mainly because of fast-growing incomes of residents and better accessibility of loans. In contrast, the contribution to the creation of the gross capital and net exports was the negative one (0.4 point, 0.6 point respectively),
- **In 2004**, there were also other expenditure items contributing to the GDP growth by 4.2%. While the contribution of the final consumption significantly declined (down to 0.6 point) because of households' stocking up before the expected price rises after the accession to EU, the main source of growth was the creation of the gross capital (2.2 points). The role of the external sector started to increase as well (1.4 points),
- **In 2005**, the economy growth by 6.1% was driven mainly by the significantly improved results of the foreign trade, which profited from new export capacities (with the contribution of 4.0 points). The final consumption recovered within the domestic demands (1.7 points) and it got ahead of the creation of the gross capital (0.4 point),
- **In 2006**, the economy maintained its dynamics of 6.1%, but the main growth transferred into favour of domestic demands. Especially, investment activities increased (the contribution of 3.2 points) as well as the household consumption (2.3 points), thanks to the favourite economic development. The lower contribution of the foreign trade (0.5 point) reflected faster growth of imports (graph I.1.2)

accompanied by the differentiated development in expenditure items

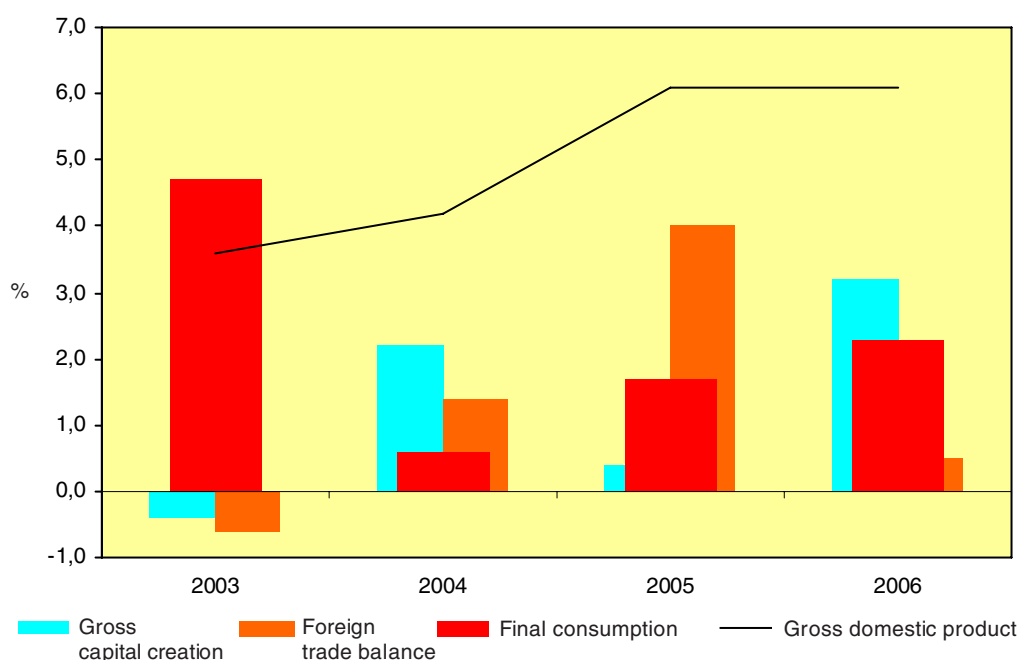
The gross value added (in constant prices) **increased year-on-year by 6.4%**. The faster growth, when compared with GDP, resulted from the higher increases in subsidies on products (3.8%) than product taxes (3.3%). The highest increase was reported by **the manufacturing industry** (14.0%) and **the extraction of minerals** (12.3%). In contrast, the gross value added decreased in agriculture by 7.2%. The manufacturing industry covered the year-on-year increase in the gross value added from 56.7%.

Performance grew especially in the manufacturing industry...

In the branch structure of the gross value added (in current prices), the share of **industry** increased to 32.6% (from 31.6% in 2005), thereof **the manufacturing**

... its share in the gross value added

Graph I.1.2 GDP expenditures' contribution analysis (imports for the final consumption not excluded, in p.p.)

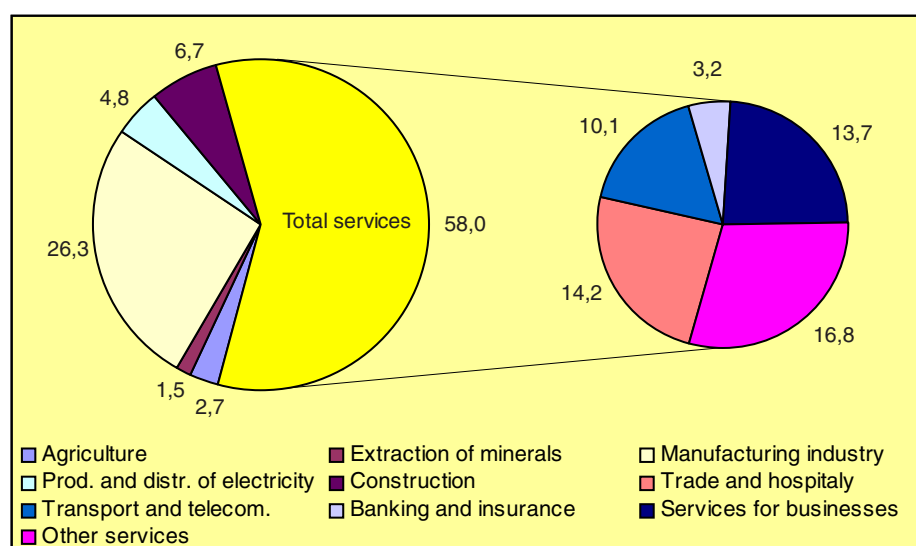


Source: CZSO, MIT graph

further increased...

industry increased to 26.3% (from 25.9%). Mainly foreign owned enterprises participated in the growing performance of the manufacturing industry. The share of **construction** also slightly increased to 6.7% (from 6.6%). In contrast, the share of **agriculture** decreased to 2.7% (from 2.9%) and especially the share of **the total of services** decreased to 58.0% (from 58.9%).

Graph I.1.3 GDP branch structure (the shares of branches in the gross value added, in % of current prices)



Source: CZSO, MIT graph

... mainly to the detriment of services

Within services, the share of **trade and repairs of motor vehicles** stagnated at the level of 12.4% (but together with hospitality and accommodation decreased from 14.4% to 14.2%). There were decreases in the case of other important service

branches. In the case of **properties and services for businesses**, the share of value added in GDP declined year-on-year by 0.1 p.p., down to 13.7% (graph I.1.3).

Growth in the gross domestic products was accompanied in 2005 and 2006 with the identical increases in employment (1.6%) and thus also in the national labour productivity (4.4%). With regard to **the productivity to wage development ratio**, the development was the good one in spite of the fact that the growth in labour productivity difference, when compared with the real wage, got smaller year-on-year (by 0.5 p.p.).

This development resulted from faster growth in real wages (to 3.8% compared with 3.3% in 2005) because of the increased nominal wages compensated only partly by the higher growth in prices. The result was **the decrease in real unit wage costs** year-on-year by 0.6 p.p. and that was less than in 2005 (-1.1 p.p.).

Unit wage costs decreased

I.2 Structure of the economy

The organisation structure of the economy reflects **the situation in the business environment** and the development **indicates the dynamics and characteristics of changes taking place in the composition of business subjects**, which took place in a relatively short time after the freeing up of business activities.

The number of subjects was increasing only slightly after the fast growth

The summary review of the national economy structure, from the legal forms' point of view, institutional sectors, prevailing activities, and the placement can be derived from the **Register of Economic Subjects (RES)** maintained by CZSO. It indicates the number of registered subjects, but without considering real activities and kinds of activities undertaken by these subjects in the monitored period.

The number of really active business subjects is estimated at 50 to 55% of the total number of registered subjects in a long term.

From the long-term view, RES presents high increases in the total number of registered subjects in the period 1995 - 2000. The increases significantly had slowed down in the following five years. This development relates to both number of private entrepreneurs - natural persons and number of legal persons, within which state enterprises were closed down - their scope has been now the minority one.

Table I.2.1 Registered economic subjects

(the number of units in thousand at 31.12., the average year-on-year pace and the year-on-year change in %)

	1995	2000	2005	2006	Average pace		Change 06/05
					00/95	05/00	
Total units	1 321	2 051	2 388	2 430	9.2	3.1	1.8
thereof: private entrepreneurs	1 125	1 680	1 985	1 912	8.4	2.4	0.9
thereof: tradespersons	1 000	1 471	1 681	1 697	8.0	2.7	1.0
legal persons	196	371	493	518	13.5	5.9	5.1
thereof: companies	113	204	257	271	12.7	4.7	5.5
co-operatives	6	11	14	14	12.3	4.7	4.0
public companies	2	1	0.7	0.7	-13.2	-7.8	-10.5

Source: CZSO

Activity forms had not stabilised yet

While increases in the number of economic subjects had significantly slowed down recently, **changes in the structure, from the legal forms and institutional sectors point of view** did not indicate the lost intensity. The number of legal persons had been increasing almost without any interruption to the expense of the share of tradespersons and independent farmers. The business forms of citizens climbed sharply up from the zero level immediately after 1990, when legislative obstacles for their development had been removed. Then, the number of private entrepreneurs was increasing, but at a substantially slower pace thanks to competition and economic pressures.

Table I.2.2 Structure of economic subjects by selected legal forms and institutional sectors (in %)

	1995	2000	2005	2006
A. Structure by legal forms				
Private entrepreneurs (natural persons)	85.1	81.9	79.3	78.7
thereof: tradespersons (according to the Trade Act)	75.7	71.7	70.4	69.9
independent farmers	7.0	5.0	4.2	4.1
others ^{*)}	2.4	5.2	4.8	4.8
Legal persons	14.9	18.1	20.7	21.3
thereof: business companies	8.5	10.0	10.7	11.1
co-operatives	0.5	0.5	0.6	0.6
state companies	0.2	0.1	0.0	0.0
associations, allowance organisations, and others	5.7	7.5	9.3	9.5
Total registered units	100.0	100.0	100.0	100.0
B. Structure by institutional sectors				
Public enterprises and corporations	0.3	0.1	0.1	0.1
Private enterprises and corporations	10.9	13.6	15.0	15.6
thereof: foreign owned	2.0	4.6	5.5	5.8
Households	84.0	81.2	78.6	78.0
Others	4.8	5.1	6.3	6.3

Source: CZSO

^{*)} The category of other private entrepreneurs includes natural persons doing business in accordance with some other than the Trade Act, with the exception of independent farmers

From the institutional sectors' point of view, the share of households had been decreasing since 1995 (even if it was still the highest one) and **the share of private enterprises and corporations had been increasing**. This situation describes especially **the share of foreign owned enterprises**, which had almost tripled since 1995.

Calm development in 2006

The development in 2006 could be considered the continuation of long-term trends. There were 2 430 481 subjects registered in RES on 31 December 2006. It was the year-on-year increase by 1.8% and that continued the development of the two previous years. The number of **legal persons** increased by 5.1% and that was significantly more than in the case of entrepreneurs - natural persons (by 4.2 p.p.). The number of **tradespersons** increased by 1% and that was the highest percentage in the last three years. However, the number of independent farmers lowered by 1.7% and that had been the highest decrease so far. This had probably resulted from strong imports of agricultural produce from neighbouring countries. This development reflected **in the sector arrangement**, where the share of households further decreased from 78.6% to 78.0%, while the weight of private enterprises and corporations strengthened by 0.6 p.p., to 15.6%. In the case of foreign owned enterprises, it was by 0.3 p.p., up to 5.8% (both these shares present the current maximum).

The branch structure

The basic branch structure of registered subjects by their prevailing activities

had been stabilised in a long term. The order of the first four strongest branches did not change during the followed up period and we present it, including the quantified shares, in Table I.2.3.

has been changing only slowly

Table I.2.3 Structure of registered economic subjects by prevailing activities (the strongest represented branches, the shares in the total number of registered subjects in %)

Branch (NACE)	1995	2000	2005	2006
G - Trade	31.2	31.1	27.6	27.4
K - Real estate activities	16.2	16.3	19.2	19.5
D - Manufacturing industry	14.1	12.8	12.9	12.7
F - Construction	10.8	10.7	11.3	11.4
O - Public, social, and personal services	6.8	7.7	8.0	8.1
A - Agriculture, game-keeping, forestry	8.5	6.4	5.8	5.6

Source: CZSO

The order has been strongly influenced by the character of the branch arrangement from the subject size point of view. The leading **position of the trade** has resulted from the biggest utilisation of independent tradespersons (there were 590 thousand trades without employees registered in 2005).

The high and still increasing share of the number of registered subjects active in the area of real estate has reflected the huge investment activities and profitability of these activities, together with the necessity of resolving the placement of newly built trade, operational, and manufacturing capacities as well as the household needs of the population.

I.3 Labour market

The number of residents has started progressively growing since 2003, after ten years of decline, and reached 10 287.2 thousand people at the end of 2006. **It was higher year-on-year** by 36.1 thousand people. The increase was contributed to by the positive balance in immigration from abroad (34.7 thousand people) and the natural increase in the number of inhabitants (1.4 thousand), when the number of new born children exceeded the number of deaths (for the first time since 1993).

Slight progressive changes in the demographic situation

The length of life has extended in the case of men by 3.7 years to 72.9 years and by 2.7 years to 79.1 years in the case of women since the establishment of the Czech Republic. However, it is still lower than in EU-25, where it is 75.8 years for men and 81.9 years for women.

The number of economically active people (the work force) increased year-on-year, according to data from the selective survey of the work force by CZSO, after the decline and stagnation in the period 2001 - 2004, by 25.2 thousand to 5 199.4 thousand (see Table I.3.1). **The employment rate** (the number of people with a single or main job to the number of all people older than 15 years of age ratio) **increased**, thanks to a larger number of workers, by 0.3 p.p. to 55%. In contrast, **the level of economic activities** (the number of economically active people to the number of all people older than 15 years of age ratio) **decreased** year-on-year slightly by 0.1 p.p., down to 59.3%. **The number of economically not active people**

The number of economically active people increased

increased year-on-year by 32.2 thousand to 3 574 thousand, especially thanks to the increased number of secondary school and university students.

Table I.3.1 Economic activities by residents (in thousand people)

	Year			Share in %		Change (2006-2005)	
	2004	2005	2006	2005	2006	Absolute	in %
People 15 years old or older	8 673.3	8 716.0	8 773.4	100.0	100.0	57.4	0.7
- economically active (labour force)	5 132.5	5 174.2	5 199.4	59.4	59.3	25.2	0.5
- employed	4 706.6	4 764.0	4 828.1	54.7	55.0	64.1	1.3
- unemployed	425.9	410.2	371.3	4.7	4.2	-38.9	-9.5
- economically not active	3 540.8	3 541.8	3 574.0	40.6	40.7	32.2	0.9
thereof: retirees	1 818.7	1 823.5	1 830.2	20.9	20.9	6.7	0.4
sec. sch. students and apprentices	508.2	511.1	522.1	5.9	6.0	11.0	2.2
university students	239.1	256.8	265.5	2.9	3.0	8.7	3.4
looking after family, house keepers	326.2	316.5	319.6	3.6	3.6	3.1	1.0
disabled pensioners and others	648.6	633.9	636.6	7.3	7.2	2.7	0.4

Source: CZSO - Selective survey of labour force

Employment grew in the secondary and tertiary sectors...

The number of workers in the national economy had reached the highest level since 1998, when it **increased** year-on-year by 64.1 thousand people, i.e. by 1.3% to 4 828.1 thousand people (see Table I.3.2). The included share of women was 43.2%. **The number of workers had further decreased in the primary sector** (agriculture, forestry, and fisheries) by 7.7 thousand to 181.7 thousand (the relative decrease by 0.2 p.p. to 3.8% of the total employment). The decrease had started at the beginning of 1990s. **Employment grew especially in the secondary sector** (industry and construction) by 48.9 thousand to 1 929.4 thousand people, when its share in the total employment increased by 0.5 p.p. to 40%. This share has been the highest among all European Union countries (EU-25), thanks to traditions and also the current industrial focus of the Czech Republic.

Table I.3.2 Employment in the national economy in a single (main) job (in thousand people)

	Year			Share in %		Change (2006-2005)	
	2004	2005	2006	2005	2006	Absolute	in %
Total employment	4 706.6	4 764.0	4 828.1	100.0	100.0	64.1	1.3
Sector I (agriculture, forestry, fisheries)	202.3	189.4	181.7	4.0	3.8	-7.7	-4.1
Sector II (industry and construction)	1 844.6	1 880.5	1 929.4	39.5	40.0	48.9	2.6
Sector III (total services)	2 658.5	2 692.6	2 716.0	56.5	56.2	23.4	0.9
- trade, repairs of motor vehicles and consumer goods	630.9	614.8	613.6	12.9	12.7	-1.2	-0.2
- accommodation and catering	174.8	181.7	187.0	3.8	3.9	5.3	2.9
- transport, warehousing, and communications	364.0	359.7	361.0	7.5	7.5	1.3	0.4
- financial mediation	93.6	96.5	92.2	2.0	1.9	-4.3	-4.5
- real estate, business activities	281.5	288.3	321.3	6.1	6.6	33.0	11.4
- public administration, defence, social security	322.5	333.2	325.6	7.0	6.7	-7.6	-2.3
- education	279.0	296.6	287.6	6.2	6.0	-9.0	-3.0
- health and social care and personal services	323.6	328.1	329.9	6.9	6.8	1.8	0.5
- other public, social and personal services	184.4	189.8	193.0	4.0	4.0	3.2	1.7
- others	4.2	3.9	4.8	0.1	0.1	0.9	23.1
- unidentified	1.2	1.5	1.0	0.0	0.0	-0.5	-33.3

Source: CZSO - Selective survey of labour force

Employment grew in the tertiary sector (services) by 23.4 thousand to 2 716 thousand people, while its share decreased by 0.3 p.p., to 56.2%. The Czech

Republic belongs among European Union countries having the lowest share of services in the total employment.

According to positions in main jobs, the employment growth was influenced especially by **the growth in the number of employees** by 52.5 thousand, to 4 032 thousand. Their share in the total number of employees increased by 0.1 p.p. to 83.6%. **The number of entrepreneurs**, including family members, **also increased** by 16 thousand to 779.2 thousand, when their share in the total employment increased by 0.1 p.p. to 16.1%. The decline in the number of **co-operative members** continued.

... the numbers of employees and entrepreneurs grew in the employment structure

The number of **foreign nationals employed** in the Czech Republic **increased** at the year end year-on-year by 33.3 thousand, i.e. by 22% to 185.1 thousand people (see Table I.3.3). This increase supported by the changed conditions on the employment of foreigners after the accession of the Czech Republic to EU had been mostly the result of the increased economy performance. In the structure, **the number of registered people increased**, including foreigners, who did not need work permits, by 27.1 thousand to 123.6 thousand. **The number of work permits** granted to foreigners from third countries also increased by 6.2 thousand to 61.4 thousand. Most employed foreigners came from Slovakia (91.4 thousand) followed by those coming from Ukraine (46.2 thousand) and Poland (17.1 thousand).

The number of employed foreign workers significantly grew...

Table I.3.3 Employment of foreigners

	Situation on 31 December			Share in % 2006	Change (2006-2005))	
	2004	2005	2006		Absolute	in %
Total number of registrations	73 587	96 519	123 623	63.6	27 104	28.1
- Citizens of EU/EEA and Swiss citizens	72 840	93 867	116 846	61.9	22 979	24.5
- Foreigners not requiring work permits	747	2 652	6 777	1.7	4 125	155.5
Number of work permits	34 397	55 207	61 452	36.4	6 245	11.3
Total number of foreign nationals	107 984	151 726	185 075	100.0	33 349	22.0

Source: Ministry of labour and social affairs

The number of **foreigners**, who were working as **entrepreneurs on the basis of trade certificates decreased** on 31 December year-on-year by 1.5 thousand to 65.7 thousand people (see Table I.3.4). Most foreign entrepreneurs originated in Vietnam (22 910), Ukraine (21 325), and Slovakia (8 282). The total number of entrepreneurs registered in the Czech Republic as both natural and legal persons reached 2 030.8 thousand at the year end, i.e. by 24.9 thousand people more than a year ago (by 1.2%).

... the number of foreign entrepreneurs decreased

Table I.3.4 Number of entrepreneurs with trade certificates

	Situation on 31 December			Change (2006-2005)	
	2004	2005	2006	Absolute	in %
Total entrepreneurs	1 983 285	2 005 882	2 030 759	24 877	1.2
thereof: natural persons	1 736 800	1 751 940	1 773 785	21 845	1.2
legal persons	246 485	253 942	256 974	3 032	1.2
Entrepreneurs - foreigners	65 219	67 246	65 722	-1 524	-2.3
Share in %	3.28	3.35	3.23	x	-0.12

Source: MIT, Trade Register

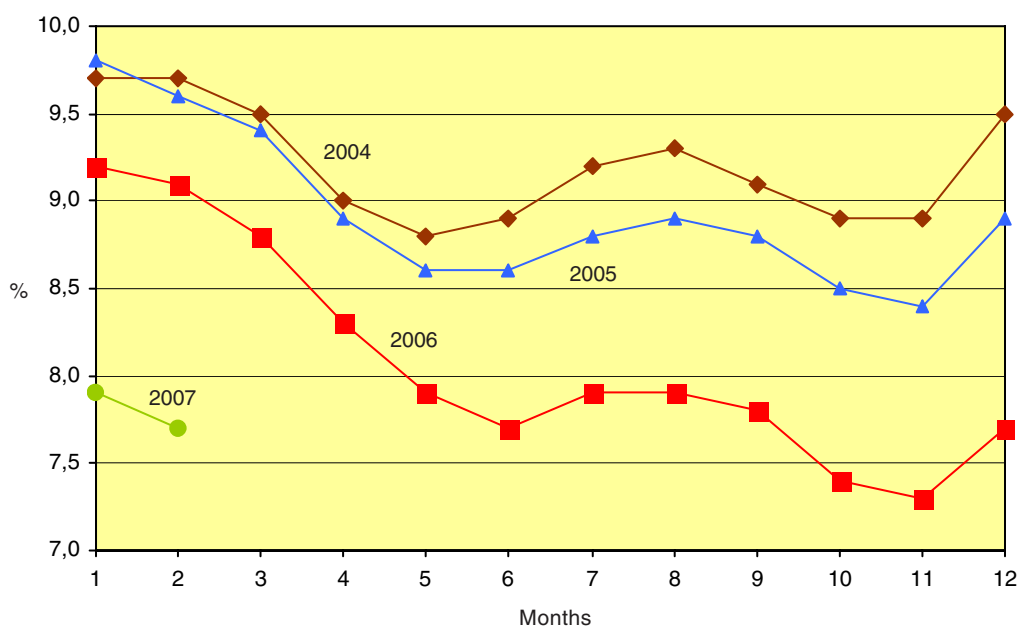
The registered unemployment rate had been decreasing year-on-year since January 2006, when it was 9.2%, with the exception of seasonal fluctuations. **It**

The unemployment rate further

decreased...

was 7.7% on 31 December, i.e. by 1.2 p.p. less than a year ago (see Graph I.3.1). The average **annual rate decreased** year-on-year by 0.9 p.p., down to 8.1%.

Graph I.3.1 Registered unemployment rates (in %)



Source: Ministry of labour and social affairs, MIT graph

... the number of job seekers decreased

The number of job seekers decreased year-on-year thanks to the growing employment (by 61.9 thousand, i.e. by 12.1% to 448.5 thousand on 31 December). That number included 421.3 thousand job seekers, who could immediately start working if offered suitable jobs. The number of unemployed women decreased at the year end year-on-year by 26.9 thousand to 238.7 thousand, but their share in the total number increased by 1.2 p.p., to 53.2%.

There were 129.9 thousand job seekers getting the unemployment allowance on 31 December, i.e. 29% of all registered people (this was by 1.2 points less a year ago). The average monthly unemployment allowance was CZK 4 618 in the 4th quarter and this was by CZK 324 more year-on-year.

There was the total of 610.7 thousand job seekers newly reporting in job centres in 2006, i.e. by 27.5 thousand fewer year-on-year. There were 672.6 thousand people excluded from the register, i.e. by 3.1 thousand more than a year ago. There could be placed 429.8 thousand job seekers out of the total number of excluded people, i.e. 63.9% (67.3% in the previous year).

Differences in between regions have still remained high. The highest unemployment rates were reported on 31 December by the following regions: Ústí (13.8%), Moravian-Silesian region (12.6%) - see Annex, Table I. The lowest unemployment rate was in Praha (2.7%). The number of job seekers decreased year-on-year in all regions - the absolutely highest decrease took place in the Moravian-Silesian region (by 11.1 thousand). By districts, the highest unemployment rate was, at the year end, in the districts of Most (19.5%), Karviná (16.9%), and Teplice (15.7%). In contrast, the lowest rates were in the districts of Praha-West and Praha-East (2.1%).

... the number of vacancies grew

The number of vacant workplaces increased in connection with putting new manufacturing capacities into operations. Their average annual number increased year-on-year by 26.9 thousand to 82.5 thousand. The number of offered vacancies was significantly higher in all months than in the previous year. On 31 December, there were 93.4 thousand vacancies in the labour market (by 41.3 thousand more

year-on-year). There were 4.8 candidates per vacancy (9.8 a year ago). The highest number was in the District of Karviná (34.2) followed by Bruntál (20.6) and Teplice (19.1).

The situation of school graduates and disabled job seekers improved

There were 32 thousand **unemployed school graduates and youth** registered on 31 December, i.e. by 6.6 thousand fewer year-on-year, with the share of 7.1% in the total unemployment (the year-on-year decrease by 0.5 p.p.). The number of unemployed school graduates has been decreasing with growing demands for young workers knowing information technologies and foreign languages.

The increase in work opportunities influenced also **the number of disabled job seekers** (the decrease by 4 thousand to 71.3 thousand at the year end). There were 3.2 thousand vacancies for this group of job seekers on 31 December (1.8 thousand a year ago) and there were 22.5 candidates per vacancy (41.8 a year ago).

Job seekers older than 50 years of age have remained the threatened group...

In the structure of job seekers by age (see Annex, Table I), the share of **job seekers older than 50 years of age** increased year-on-year in the absolute decrease in relation to the number of all job seekers by 1.9 p.p., down to 27.1%, i.e. 121.6 thousand people.

... as well as low educated and long unemployed job seekers.

By qualification, the highest number of job seekers had apprenticeships or the secondary education without the final exam (194.5 thousand, i.e. the year-on-year decrease by 31.8 thousand), i.e. they made up 43.3% of all unemployed people. University educated people (15.6 thousand) participated in the total number of job seekers with 3.5%.

According to **the length of unemployment**, the number of registered people decreased in all groups. The biggest group was made up by **long-term unemployed**, i.e. job seekers unemployed longer than 1 year. There were 184.9 thousand of them at the year end (the year-on-year decrease by 27.9 thousand) with the share of 41.2% in the total number of all job seekers (the decrease by 0.5 p.p. compared with the previous year). **The long-term unemployment rate**, i.e. the share of long-term unemployed in the total work force decreased year-on-year, according to MIT calculation, by 0.6 p.p. to 3.4% at the year end.

Increased funds for the Employment Policy

The annual expenditures for **the active employment policy** were amounting to CZK 7.5 billion, i.e. by 18.1% more than in the previous year, according to the treasury performance of the state budget. The used funds had created 22.7 thousand purposeful workplaces and 17.1 thousand places of publicly beneficial works.

Expenditures for **the passive employment policy**, i.e. for the unemployment allowances, reached CZK 7.4 billion. This meant the year-on-year increase by 3.5%.

Slight increases in the growth of nominal wages

The average monthly nominal wages in enterprises with 20 or more employees within the enterprising sector (in the finance mediation with disregard to the number of employees) and in all organisations within the non enterprising sector increased year-on-year by 6.5% to CZK 20 211 and **the real wages** increased by 3.9%. The nominal wage in **the enterprising sector** was CZK 20 333, i.e. the year-on-year increase by 6.8%, and the real terms it increased by 4.2%. The wage in the non enterprising sector was CZK 19 784 and the nominal one increased by 5.4%, in the real terms by 2.8% (see Table I.3.5).

Differences between industries and between regions increased

The highest wages **by the industry** (according to NACE sections) were achieved in the finance mediation and the lowest ones in accommodation and catering (see Table I.3.6). The inter-sector wage differentiation, expressed as a quotient of standard deviation of the average wage, increased year-on-year by 0.2 percentage point, according to the MIT estimate, to 29.6%.

According to **the economy kinds**, the highest average monthly nominal wages were achieved in international companies (CZK 24 718) and the lowest ones in co-operatives (CZK 13 404). The difference between the highest and the lowest wages

Table I.3.5 Average monthly wage in 2006¹(year-on-year addition in %)

	2004		2005		2006		Average monthly wage in 2006 in CZK
	Nominal	Real	Nominal	Real	Nominal	Real	
Total:	6.6	3.7	5.4	3.4	6.5	3.9	20 211
thereof:							
- enterprising sector	6.9	4.0	5.1	3.1	6.8	4.2	20 333
- non enterprising sector	5.7	2.8	6.7	4.7	5.4	2.8	19 784

Source: CZSO

increased year-on-year by CZK 173 to CZK 11 314. The wages grew the fastest in private enterprises (by 9.1% year-on-year).

Table I.3.6 Ranking of industries, according to the average nominal wage in 2006¹ (according to NACE - in CZK)

Rank in 2006		NACE category	2005	2006	Change (2006-2005)	
					in CZK	in %
1	Finance mediation	J	37 366	39 740	2 374	6.4
2	Production and distribution of electricity, gas, and water	E	24 119	26 335	2 216	9.2
3	Extraction of minerals	C	22 502	24 195	1 693	7.5
4	Public administration, defence, social security	L	21 870	22 896	1 026	4.7
5	Real estate activities, enterprising activities	K	21 097	22 615	1 519	7.2
6	Transport, warehousing, communications	I	20 561	21 805	1 244	6.0
7	Construction	G	18 933	20 261	1 328	7.0
8	Trade, repairs of motor vehicles	F	18 949	20 013	1 064	5.6
9	Health and social care, veterinary activities	D	17 511	19 021	1 510	8.6
10	Manufacturing industry	N	17 854	19 009	1 156	6.5
11	Education	M	17 187	18 344	1 157	6.7
12	Fisheries	B	15 986	16 831	844	5.3
13	Other public, social and personal services	O	15 721	16 548	827	5.3
14	Agriculture, game-keeping and forestry	H	13 879	14 835	956	6.9
15	Accommodation and catering	A	13 433	14 103	669	5.0
Total Czech Republic			18 985	20 211	1 226	6.5

Source: CZSO

The wage intensity of GDP did not grow

The average **nominal wage in the national economy as a whole**, including the estimate of small companies, increased year-on-year by 6.4% to CZK 19 003 and **the real wage** increased by 3.8%. **The real increase in the volume of wage means** (without other personal costs) accounted for pays, which influenced the purchase power of households, achieved 5.0%. The relation of the nominal volume of wage means towards GDP in current prices (**the wage intensity of GDP**) reached 28.7% and was roughly identical as a year ago.

Strong differentiation of wages in EU

The comparison of average annual wages in individual **EU countries** presents the big difference between the Czech Republic and the „old“ member countries and also the leading position in the group of „new“ countries (see Table I.3.7).

According to Eurostat, the average annual **wage of employees in the Czech Republic** reached 25.7% of the total average in EU. From the point of view of the **purchase power standard (PPS)**, which eliminates differences in prices between the member countries, it equalled 49.8%.

¹ For economic subjects within the enterprising sector with 20 or more employees (with disregard to the number of employees in the finance mediation industry) and for all organisations within the non enterprising sector.

Table I.3.7 Average annual employees' wages in European Union countries (share in %, EU-25 = 100)

	Total		Industry	Construction	Services
	PPS	Euro	Euro		
EU-25	100,0	100,0	100,0	100,0	100,0
Luxembourg	132.9	136.0	132.4	120.5	138.2
United Kingdom	119.8	137.5	140.5	157.4	133.2
Germany	119.4	123.6	134.2	120.0	115.0
Netherlands	117.9	120.2	125.6	132.4	116.1
Austria	116.0	115.7	124.1	120.5	110.6
Denmark	115.7	149.0	150.9	169.3	145.0
Belgium	109.4	109.5	113.6	93.2	108.7
France	103.6	104.0	107.5	101.1	101.9
Ireland	99.6	117.5	121.2	152.9	110.5
Italy	98.1	92.1	89.8	90.9	94.7
Finland	93.2	110.5	113.8	117.2	107.2
Sweden	91.4	114.4	112.1	120.0	115.1
Spain	88.2	75.2	80.8	72.2	73.4
Cyprus	86.9	79.7	70.4	85.5	82.0
Greece	80.2	66.9	71.2	74.4	63.2
Portugal	63.4	48.6	42.2	46.0	55.1
Slovenia	58.6	40.3	39.4	40.0	41.9
Czech Republic	49.8	25.7	24.9	28.4	26.6
Slovakia	46.9	20.4	19.7	19.5	20.8
Poland	42.6	25.2	25.4	25.4	25.2
Hungary	39.3	21.1	21.3	18.3	21.4
Estonia	33.6	17.6	17.2	19.0	17.7
Latvia	29.7	14.6	14.7	15.1	14.6
Lithuania	25.6	12.9	13.4	12.7	12.6

Source: Survey by Eurostat in 2002 (amended in 2005)

I.4 Price and fiscal policies

I.4.1 Price policy

After the increases in consumer prices at the year beginning...

The trend of low inflation in the environment of fast-growing domestic economy achieved in 2005 was disrupted by a deviation immediately at the beginning of 2006. It was the highest deviation in last 14 months and its level was maintained till the end of the third quarter.

One time adjustments of administratively determined prices were once again the main sources of inflation in 2006. The prices were influenced by both internal and external cost pressures (especially the fuel and energy prices derived from the development in prices of imported energy materials), which slowed down their growth at the year end. The strengthening of the Czech currency was acting against the inflation throughout the year. The growth of administratively determined prices got faster from 5.8% in 2005 to 7.8% in 2006, while the market prices increased from 0.7% in 2005 to 0.9% in 2006. The development in consumer prices in time since 2000 is presented in the following Table I.4.1.1.

Table I.4.1.1 Development in consumer prices since 2000 (in %)

	2000	2001	2002	2003	2004	2005	2006				
	Decem.	Decem.	Decem.	Decem.	Decem.	Decem.	January	March	June	Septem.	Decem.
Inflation rate (annual running averages)	3.9	4.7	1.8	0.1	2.8	1.9	2.0	2.2	2.5	2.8	2.5
Inflation (year-on-year change)	4.0	4.1	0.6	1.0	2.8	2.2	2.9	2.8	2.8	2.7	1.7

Source: CZSO, MIT graph

... the inflation rate was growing continuously until September

The inflation rate (the running average of 12 months) **had maintained its growing trend until the end of September** (from 1.9% in December 2005 to 2.8% in September), while it progressively decreased during the following months (down to 2.5% in December and to 2.4% in January 2007).

The main factor in the growth of the average inflation rate related to the regulated prices of housing, which increased, on average, by 6.3% in 2006 (by 4.1% in 2005). The prices of natural gas were especially high (by 19.1%) followed by the prices of power (by 9.0%), heating and hot water (by 10.7%), water deliveries (by 3.5%), and sewerage (by 5.6%). The price development in transport was influenced by the highly volatile prices of fuels, which increased, on average, by 3.1%. The prices of accommodation increased (by 13.7%) especially because of changes in the subsidy system related to the accommodation in university dormitories.

The growth in consumer prices stopped at the end of the 3rd quarter

Then, after the faster pace in the year-on-year growth in consumer prices in January (2.9% compared with 2.2% in December 2005) caused by the growing regulated prices, the inflation had been stable at the similar level, with slight fluctuations only, until September 2006. **There were price fluctuations in both directions within individual items in the consumers' basket** and they influenced its level (according to their weights in the consumers' basket) during the year. It significantly decreased, down to 1.3%, in October and it was growing only very slightly towards the year end (up to 1.7% in December).

The Czech Republic has been once again achieving significantly lower price rises than EU since October 2006

The described development in the domestic price level reflected in the harmonised index of consumer prices (HICP), which changed twice, when compared with EU prices, in 2006. While the HICP values were mostly below the average of EU countries in 2005, **the growth in domestic prices varied above their level, or it was similar, during the first nine months of 2006.** However, the Czech HICP **significantly decreased under the level of their price growth in October** (down to 0.8% from 2.2% in September, when it was 1.8% in EU-25) in consequence of the sharp decline in the domestic inflation. It had maintained its much lower growth until the year end (it was 2.1% on average of 2006 in the Czech Republic, while it reached 2.2% in EU-25). The highest growth in prices in 2006 took place in Latvia (by 6.6% on average in December), while the lowest growth was in Finland (by 1.3%) - see Table in Annex I.

Prices of industrial producers slowed down their growing trend at the end of the 3rd quarter

When assessing the area of prices of industrial producers in a long term, it looks that it developed very unequally, mainly under the influence of temporary trends in world commodity markets (from the high increases of 7.2% in 1995 to the year-on-year decreases by 0.7% in 2002 and 0.3% in 2005). The slower growth dynamics in 2005, which peaked in December by the year-on-year decline, turned around in January 2006. **Industrial prices stagnated in the 1st quarter 2006** at the average year-on-year growth of 0.3%, but **they had started growing since April** up to 2.7% in August. Then, they slowed down in October to 1.9% and increased again by 2.6% in December (by 2.8% in January 2007). The year average was 1.6%.

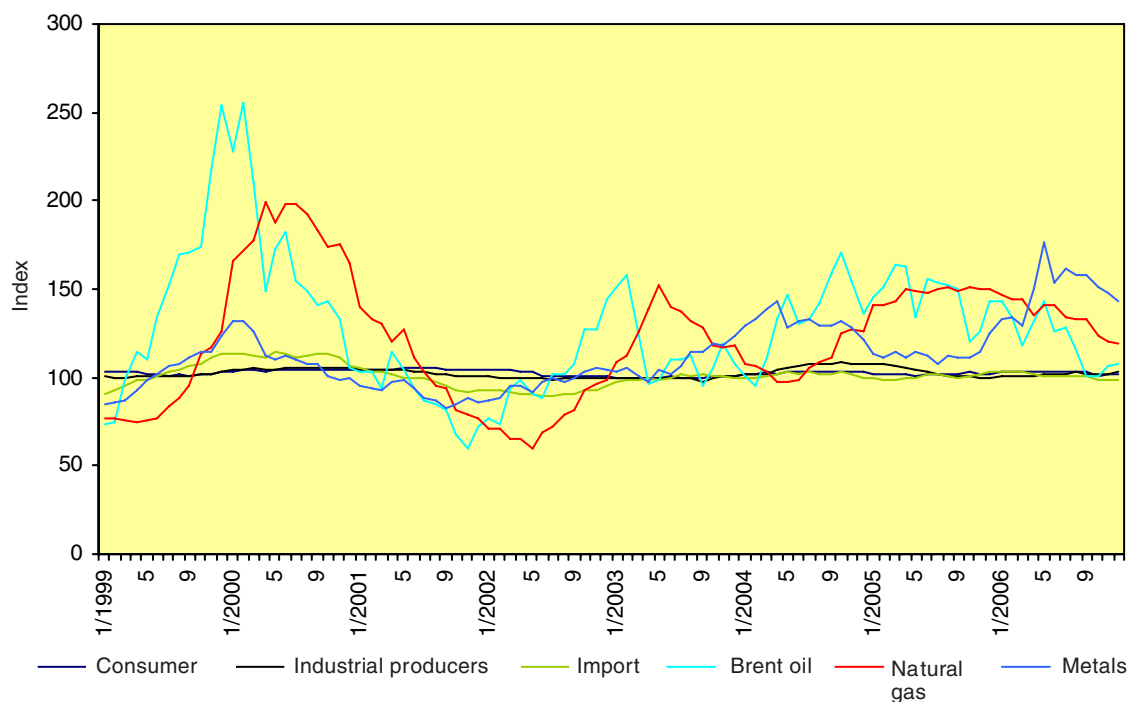
Industrial prices grew slower in the Czech

When comparing the price development of industrial producers in the Czech Republic and in EU (see Table in Annex I), it has been apparent that **the prices of**

industrial producers have been growing in the Czech Republic much slower for more than one year. While the addition in the Czech Republic was only 0.4% at the year beginning (7.0% in EU-25), the gap was significantly narrowed during the year and especially at the year end (the growth by 2.6% in the Czech Republic and by 3.4% in EU-25). There was a turnaround at the beginning of 2007 forecasting a substantial slowdown in price rises in EU, down below the values achieved in the Czech Republic. The different development in individual indices has resulted mostly from different economy structures (from the weights of individual industries in the Index and their demands on inputs, etc.) - see Table in Annex I.

Republic, when compared with EU

Graph I.4.1.2 Development in import and domestic prices of energy materials (year-on-year change in %)



Source: CZSO, MIT graph

In spite of the fact that the world prices of industrial materials and food maintained their high year-on-year growth (by 26.2% on average from 38.3% in 2005), **it got progressively slower** (by 15.3% in December and by 0.3% in January 2007). The lower additions were reported especially by the prices of crude oil and gas (they grew on average by 26.2% since the year beginning from 46.2% in 2005). The growth decreased down to 13.4% in December and the prices lowered by 4.5% year-on-year in January. **The most significant growth in prices related to metals in 2006** (by 49.4% on average since the year beginning from 13.2% in 2005). The prices grew by 42.9% in December and they maintained their strong performance also in January (41.2%). Among metals, the highest rise belonged to zinc (by 136.5% on average) followed by copper (by 83.3%) and nickel (by 60.5%) thanks to high demands coming from newly industrialised countries, especially China. The development in world prices of industrial materials has been still under the influence of the unstable situation in Middle East, Nigeria, and Venezuela, the tension related to the Iranian nuclear programme, threats of terrorists' attacks, and hurricane worries and their impacts on mining and processing.

Prices of raw materials and prices of food slowed down their growth in world markets...

Thanks to the continuous slowdown in the growth of prices of energy resources on world markets, accompanied by the strengthening of the Czech currency towards the dollar, the **year-on-year growth in import prices of energy materials had also slowed down** since the year beginning. The total year-on-year growth in import

... and influenced the development in import prices

Table I.4.1.2 Development in prices within main price areas (year-on-year change in %)

	2000		2001		2002		2003		2004		2005		2006	
	Decem.	Average	Decem.	Average	Decem.	Average	Decem.	Average	Decem.	Average	Decem.	Average	Decem.	Average
Prices - Consumer	4.0	3.9	4.1	4.7	0.6	1.8	1.0	0.1	2.8	2.8	2.2	1.9	1.7	2.5
- Industrial producers	5.0	4.9	0.8	2.9	-0.7	-0.5	0.9	-0.3	7.7	5.7	-0.3	3.0	2.6	1.6
- Construction works	4.7	4.0	3.4	4.1	2.1	2.7	2.3	2.2	4.3	3.7	2.5	3.0	3.2	2.9
- Agricultural producers	9.0	9.2	1.8	8.4	-15.6	-9.5	8.0	-2.9	2.4	8.1	-5.2	-9.2	4.9	2.2
- Market services	4.9	3.4	1.7	3.9	3.9	3.2	0.4	1.6	2.8	2.3	1.6	1.9	3.9	3.7
- Import	6.8	12.0	-7.0	-1.5	-4.4	-8.5	-0.3	-0.3	0.1	1.6	2.9	0.3	-2.0	0.8

Source: CZSO

prices had slowed down since the 2nd quarter, **together with decreases or only negligible price rises of other imports**, and that **resulted in the year-on-year decrease** by 1.3% in **October** and which got even more pronounced (by 2.0%) in December. However, the prices increased on the year average by 0.8%.

Prices of construction works maintained their growth at the stable and dynamical pace in 2006 (see Table I.4.1.2). They grew by 3.2% year-on-year in December and that had been by 2.9% on average since the year beginning. The growth resulted from the continuing boom in the industry based on high demands related to constructions of flats and family houses, their reconstructions, but also to constructions taking place in the area of infrastructure and commercial areas. Apart from advantageous interest rates of home loans and the good situation in the real estate market, the expected increase in the DPH (VAT) rate in 2008 had also contributed as well as the rent deregulation in 2007. In contrast, **prices of materials and products consumed by the construction industry corresponded to the development in prices of industrial producers and significantly slowed down their growth in 2006** (down to 1.3% on average year-on-year, while they grew by 3.1% in 2005 and by 5.8% in 2004).

Prices of construction works have been still dynamically growing

Prices of agricultural producers turned their trend at the end of the 1st quarter (after 14 months long decreases year-on-year) **and they were continuously rising in the following months of 2006** (by 4.9% in December year-on-year). **The cause related to the highly volatile prices of vegetable products**, which started to grow, after the year-on-year decreases in January, up to 23.5% in **December** (they grew by 13.3% on average in the year from the decrease by 25% in 2005). Significant rises were reported by prices of potatoes (by 209.3% in December), but also of grains, oil plants and vegetables (by 25.5%, 18.3%, and 16.9%). **In contrast, the prices of animal products stayed under the level of the previous year throughout the year** (by 3.9% in December, by 2.9% on the year average from the growth of 0.4% in 2005). The comparison of the price development in main price areas is presented in Table I.4.1.2.

Prices of agriculture producers started the trend of growth

Prices of market services in the production sector² had maintained the trend of relatively high year-on-year growth since the beginning of 2006 - by 3.9% in December (from 1.9% in 2005). The highest price rises were reported in December by services for businesses and services in the real estate area (by 5.9% year-on-year from 1.9% in 2005) mainly because of rising advertising prices related to TV, the radio and daily newspapers (by 26.2% in December). The prices of search and security services and the prices in the area of exhibition and fair services also increased (identically by 5.3%). The prices of sewerage grew slower (by 5.0% year-on-year) followed by the prices of banking (by 2.4%), insurance (by 0.6%), domestic truck transport (by 0.3%), and postal and telecommunication services (by 0.2%).

Prices of market services increased their year-on-year growth

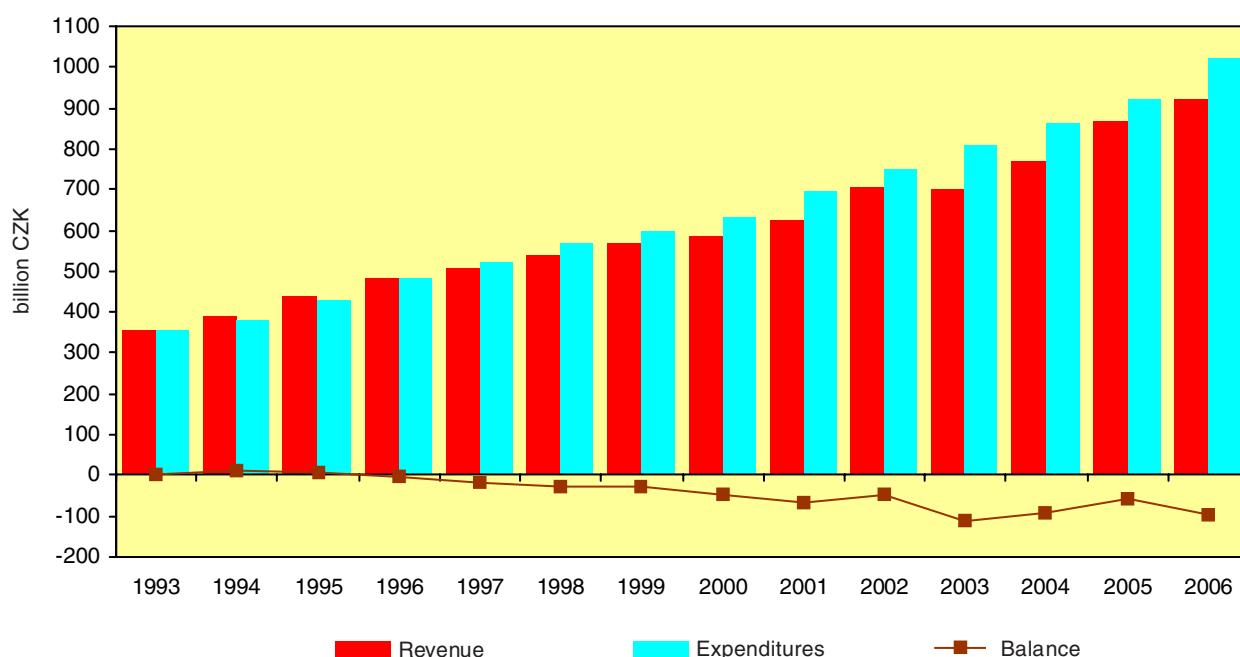
I.4.2 Fiscal policy

The state budget of 2006 was approved with the deficit of CZK 74.40 billion. It counted on the revenue worth CZK 884.39 billion and expenditures worth CZK 958.79 billion. That meant the deficit lower by CZK 9.19 billion, when compared with the budget of 2005. **There were two amendments of the state budget passed during the year** and 818 budgetary provisions were put in place.

The deficit in the state budget has increased

² This has included prices in between enterprising subjects: The domestic truck transport, postal and telecommunication services, banking, insurance, other services for businesses (including services in the area of real estate), and sewerage.

Graph I.4.2.1 Development in the state budget since 1993 (in billion CZK)



Source: Ministry of Finance, MIT graph

The state budget deficit made up 3.0% of GDP

The performance of the state treasury developed fluctuating during the year (see Table I.4.2.1) and finished with the deficit of CZK 97.58 billion (i.e. 3.0% of GDP). It had been the second worst result since 1993 and the worsening by CZK 13.87 billion, i.e. by 16.6%. When compared with the approved budget, it was worse by CZK 41.24 billion, i.e. by 73.2% compared with 2005. **The final deficit was significantly influenced by the state payments made over the budgetary framework** for the benefit of the Czech National Bank (CZK 14.0 billion for claims, issued guaranties, and overtaken assets from 1997, which occurred with the consolidation and stabilisation of the banking sector) and for the undertaking of the Ministry of Finance worth CZK 1.2 billion.

Table I.4.2.1 Treasury budget performance in 2006 (in billion CZK, accumulation since the year beginning)

Month	Revenue	Expenditures	Balance	
			Accumulated	Monthly
January	79.63	76.20	3.43	3.43
February	148.83	149.39	-0.56	-3.99
March	235.93	220.18	15.75	16.31
April	299.66	319.61	-19.95	-35.70
May	373.42	385.62	-12.20	7.75
June	468.82	461.18	7.64	19.84
July	539.48	539.93	-0.45	-8.09
August	597.52	603.96	-6.44	-5.99
September	673.50	672.01	1.49	7.93
October	748.76	761.43	-12.67	-14.16
November	821.23	852.15	-30.92	-18.25
December	923.06	1020.64	-97.58	-66.66

Source: Ministry of Finance

The highest income dynamics were

The growth of the income side of the state budget (by CZK 56.6 billion year-on-year) was especially affected by increases in non taxable incomes, capital

incomes, and accepted subsidies in 2006 (by CZK 25.34 billion, i.e. the 150.6% budgetary performance). The high growth and the completion of this income collection were influenced by non budgetary incomes, especially the transfers of means from the funds of organisational state segments (OSS) to the chapter incomes of the volume of CZK 46.9 billion.

reported by non taxable and other incomes...

The growth dynamics in **taxable incomes** slowed down year-on-year (with the growth by CZK 31.27 billion, i.e. by 4.1% - see Table I.4.2.2) and they were positively influenced especially by the development in the collection of excise taxes, contributions to the social security, and DPH (VAT).

... when the growth pace slowed down in taxable incomes...

From a long-term point of view, there have been important structural changes taking place in taxable incomes. While the share of indirect taxes, i.e. DPH (VAT) and excise taxes, had been continuously decreasing until 2005 (from 50.1% in 2000 to 49.3% in 2005), this trend turned around in 2006 and the share of these taxes increased to 51.3%.

The budgetary expenditures were fulfilled in all titles, when the utilisation of current expenditures within the total state budget expenditures (with the year-on-year increase by CZK 97.84 billion) **increased** year-on-year by CZK 71.54 billion. The reminder related to capital expenditures, which, however, reached much higher growth dynamics (see Table I.4.2.2).

... and expenditures increased more significantly

Within current expenditures, the most was spent for:

- **Social allowances** worth CZK 354.44 billion (the year-on-year growth by 8.7%) - the included **pensions** worth CZK 272.91 billion (the year-on-year increase by 10.3%). The level of expenditure utilisation in the social area was influenced by legislative changes, e.g.: The pensions' valorisation, the partial disability pensions have not been lowered because of work-related incomes as from 1 February 2006, the increased sums of the daily assessment base for the sickness insurance allowances, the increased minimum living sums, the increased minimal wages, the introduction of childcare allowance in facilities requiring an immediate aid (it was cancelled on 1 June 2006), the changed conditions for the parent allowance related to kindergartens as from February 2006, the increased amounts for the calculation of the birth allowance as from April 2006, the changed calculation of childcare allowances as from June, the increased close person care allowance within the social care allowances, the motor vehicle allowance for the individual transport of disabled people, and the adjustment of widow pensions assigned before 1996 as from 1 July,
- **Non investment transfers to regional public budgets** worth CZK 110.60 billion (i.e. 98.6% of the budget with the year-on-year increase by 7.9%),
- **Non investment purchases and the related expenditures** worth CZK 115.87 billion (i.e. 121.7% of the budget with the year-on-year increase by 16.4%).

The highest growth dynamics in current expenditures were reported by the non investment transfers to public central budgets (by 45.0%).

The mandatory expenditures³ presented 51.3% of the total expenditures (51.1% in 2005) and had the volume of CZK 511.3 billion. This was more year-on-year by CZK 51.4 billion, i.e. the increase by 10.9% (the budget expected the growth by CZK 30.0 billion, i.e. by 6.2%). This growth was influenced especially by old age pensions, which increased by CZK 25.5 billion, i.e. by 10.3%.

Mandatory expenditures presented the highest burden

Results of the state budget in 2006 are documented in Table I.4.2.2.

The total incomes of **local governments** - regions, municipalities, and voluntary groupings - reached CZK 359.5 billion (98.3% of the budget), when there were expenditures utilised worth CZK 363.4 billion (97.0% of the budget). In 2006, **their economies finished with the deficit** of CZK 3.9 billion. Regions participated in this with CZK 2.2 billion. Municipalities and voluntary groupings participated in the total incomes with 68.3% and in expenditures with 68.1%.

Local governments also finished with deficits

³ They are expenditures resulting from the law, other legal norms, and contractual undertakings, which the state must cover.

Table I.4.2.2 Budget performance in 2006 (in billion CZK)

	2005	2006		Performance in %	Index 2006/2005
	Reality January- December	Budget after changes*	Reality January- December		
Total revenue	866.46	889.36	923.06	103.8	106.5
Taxable income	771.62	809.57	802.89	99.2	104.1
thereof:					
Natural persons' income tax	94.77	92.30	91.59	99.2	96.6
Legal persons' income tax	100.27	88.00	95.47	108.5	95.2
DPH (VAT)	146.82	156.70	153.51	98.0	104.6
Excise duties	103.63	118.90	112.56	94.7	108.6
Custom duties	1.25	1.20	1.22	101.7	97.6
Contributions to social security and Employment Policy	311.18	336.32	333.70	99.2	107.2
Other	13.70	16.15	14.84	91.9	108.3
Not taxable and other income	94.84	79.79	120.17	150.6	126.7
Total expenditures	922.80	973.07	1020.64	104.9	110.6
thereof:					
Current expenditures	843.80	876.77	915.34	104.4	108.5
thereof: Social allowances	326.00	354.49	354.44	100.0	108.7
included pensions	247.39	272.84	272.91	100.0	110.3
Capital expenditures	79.00	96.30	105.30	109.3	133.3
Total balance	-56.34	-83.71	-97.58	x	x

Source: Ministry of Finance

Note: *The state budget, including the effects of the Act No. 170/2006 Coll. and No. 584/2006 Coll., which amended the State Budget Act in 2006

The performance of public budgets (including net borrowing) got significantly worse year-on-year. The total deficit was the highest in the history of the Czech Republic and reached CZK 142.1 billion (the previous year finished with the surplus of CZK 0.6 billion), i.e. 4.4% of GDP. With the exceptions of the health insurance and the Property Fund of the Czech Republic, the economic results of all government sector units were worse, when the state budget reported the most significant worsening.

The performance of public budgets worsened

The deficit performance of public budgets **has reflected in the development of the state debt. In 2006, the long-term trend of its growth thus continued.** It started in 1997, when the state debt had increased by CZK 111.3 billion since the year beginning to CZK 802.5 billion (i.e. by 16.1% year-on-year, the highest increase in the history). **The internal debt worsened even more** - by CZK 99.2 billion to CZK 680.9 billion. The external debt increased by CZK 12.2 billion to CZK 121.6 billion. The increased internal debt was resulting also from the coverage of a part of the loss by the Czech Consolidation Agency (which occurred in the period 1991 - 2003) at the level of CZK 20.0 billion.

The state and especially the government debt further deepened

The state borrowing resulted mostly from issues of state debentures. There were 31 issues of short-term debentures (SPP - the state treasury bonds), issues of medium-term and long-term debentures issued in both domestic and foreign markets. The gained funds served for the repayments of principals related to the long-term state debt, for the coverage of the state budget deficit, and for the coverage of the loss by the Czech Consolidation Agency. In addition to the borrowing by the issued state debentures, there were also loans from the European Investment Bank utilised.

Results of the performance by the government sector influenced the development in the government debt, which increased year-on-year by 15.2% in 2006 and reached the level of CZK 877.7 billion, i.e. 27.4% of GDP. The

government debt volume had thus more than doubled since 2001 and the main cause has been the continued deficit performance of the state budget.

I.5 Monetary policy and foreign direct investments

I.5.1 Monetary policy

Czech National Bank increased its basic interest rates in the environment of growing interest rates in main world economies in 2006. CNB made its monetary policy stricter twice in the 2nd half (on 28 July and on 29 September) within the continuing economic growth without signs of the demand inflation pressures and with the appreciating Czech crown acting against the inflation. The two-week repurchase rate was set to 2.5% after these increases, while the discount one was set at 1.5% and the Lombard one at 3.5%. However, the rates stayed in the Czech Republic below the rates in the Eurozone even after these adjustments and they belonged among the lowest ones in the world as shown in Table I.5.1.1.

Czech National Bank made the monetary conditions stricter in the 2nd half of 2006

Table I.5.1.1 Comparison of interest rates in the Czech Republic, of ECB and selected national Banks in EU countries and USA

	Basic rates in %						
	12/2004	06/2005	12/2005	03/2006	06/2006	09/2006	12/2006
Czech Republic	2.50	1.75	2.00	2.00	2.00	2.50	2.50
Eurozone	2.00	2.00	2.25	2.50	2.75	3.00	3.50
Sweden	2.00	2.00	1.50	1.75	2.00	2.50	3.00
United Kingdom	4.75	4.75	4.50	4.50	4.50	4.75	5.00
Hungary	10.00	7.25	6.00	6.00	6.00	7.25	8.00
Poland	6.50	5.50	4.50	4.00	4.00	4.00	4.00
Slovakia	4.00	3.00	3.00	3.50	4.00	4.50	4.75
USA	2.00	3.00	4.00	4.50	5.00	5.25	5.25

Source: Czech National Bank

The criterion of long-term interest rates is one of the four convergence criteria the fulfilment of which has been the condition for the accession of a EU member country into the Eurozone (together with the price stability, sustainability of public finance, and the exchange criterion), while the fulfilment of this criterion must be achieved by a sustainable way and not only at one shot. The Czech Republic has been fulfilling this criterion without problems. The difference between Czech interest rates and the interest rates in the Eurozone has been zero or a negative one and there have been no problems forecasted in this area. (The interest rates for these purposes are found on the basis of long-term state debentures or similar securities and the prognosis in the development of these rates for the Czech economy depends on the successful consolidation of public finance. In an opposite way, the trust could be lost in financial markets and this could result in worsening of the international rating of the Czech Republic, the increase of the risk premium of government obligations and, consequently, in the growing long-term interest rates.)

The multiple growth in interest rates in the case of the two most important world economies and, in contrast, the double increases of the basic domestic interest rates **have deepened the trend of growth of the negative interest differential in the monetary market.** It varied, towards the euro rates at the end of December 2006,

The negative interest differential has thus extended to the euro and dollar rates

within the interval -1.2 to -1.3 p.p. (it was -0.4 p.p. at the end of December 2005 in all maturities). Towards the dollar rates, it varied within the interval from -2.6 to -2.9 p.p., according to individual maturities (it was -2.4 to -2.5 p.p. at the end of December 2005).

Clients' interest rates slightly increased

Increases in the basic interest rates, together with the development in the rates in financial markets and with the expected slight rates' adjustments and their delaying, **reflected in the level of clients' interest rates in different ways during 2006** (see Table I.5.1.2). The real interest rates (in their relation to consumer prices) had made loans less advantageous since October after their increase in the 2nd half year. With regard to deposits, their depreciation had significantly lowered mainly thanks to the slower pace of inflation.

High demands for liquid means increased the pace of growth M_1 ...

High demands of economic subjects for liquid means continued in reaction to prevailing real depreciation of deposits and the monetary aggregate M_1 thus maintained its two-digit pace of growth during the entire year 2006 (by 14% year-on-year in December to CZK 1 239.8 billion, when it grew by 13% in December 2005). Dynamics in the year-on-year growth of **transaction money** culminated in July (by 17.3%) and corresponded with the development in high growth dynamics in single day deposits (by 14.7% year-on-year in December to CZK 944.5 billion, when it was by 13.5% in December 2005) by the enterprising sector and by residents. Demands for **money in circulation** remained high (by 11.9% year-on-year in December to CZK 295.3 billion compared with 11.4% in December 2005) and **the share of liquid means in the money supply** further **increased** (it has made more than its half since 2003) and reached the highest level of 58% in November (the highest one so far, 56.6% in December, while it made up 54.6% in December 2005).

... which significantly participated in the growing money supply

The money supply (the aggregate M_2) **increased its dynamics in the year-on-year growth in 2006** (from 8% to 9.9%, i.e. to CZK 2 188.6 billion in December 2006). They were slowed down for a short time in the 2nd quarter because of the decreasing growth in net foreign assets (down to 7.8% in May). **Foreign capital**, which ensured more than one half of the money inflow to the economy in the 1st quarter, **started decreasing its volume and thus also the pace of growth** (year-on-year from 24.7% in December 2005 down to 2.6% in May). In June, after a break lasting longer than a year, it decreased year-on-year (by 9.6% in December to CZK 973 billion) and thus **decreased the share of foreign assets in the money inflow into the economy** (from 54% in December 2005 down to 44.5% in December 2006).

The growth in domestic assets continued...

Dynamics in the growth of net domestic assets, renewed in March 2006, **grew sharply** and started reaching two-digit year-on-year additions from May (by 32.8% in December to CZK 1 215.9 billion, when they were lower year-on-year by 6.6% in December 2005). **The dynamics reflected the fast growth in the domestic loan issue** (from 1.7% in December 2005 to 22%, i.e. CZK 1 423.1 billion in December 2006), **which was dominated by the high volume and by additions to clients' credits**, and from the 3rd quarter also the net credit to the government.

... together with stable growth in clients' credits...

Favourable funding conditions (low interest rates, easier access to loans, and obliging attitude of Banks) **ensured the continuation of the trend of a high pace in the growth of clients' credits** (by 20.5% at the end of December to CZK 1 286.2 billion, while that was by 20% in December in 2005), which also related to increasing economic activities. **The pace of growth in loans to the business sector had been achieving two-digit values for the second year** (by 14.8% year-on-year in December to CZK 745.6 billion, by 13.2% in December 2005). Long-term loans prevailed in the structure and crown loans were the most important.

... especially to households

Household loans maintained the trend of its high growth, but the pace had slowed down in the 2nd quarter and it decreased below the level of 30% for the

Table I.5.1.2 Average and real interest rates on credits and savings, the interest margins (in % per annum)

Indicator	2004	2005	2006											
	12	12	1	2	3	4	5	6	7	8	9	10	11	12
Average interest rate														
- on credits - Total households	8.3	7.2	7.1	7.1	7.0	7.0	7.0	7.0	6.9	6.9	6.8	6.8	6.8	6.8
- Total non financial enterprises	4.6	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.3	4.4	4.5	4.5	4.4
- on new trading - Total households	11.5	11.0	11.4	11.3	10.7	11.1	10.6	10.2	11.0	10.9	10.8	11.0	11.1	10.8
- Total non financial enterprises	4.1	3.9	3.9	3.9	4.0	4.0	4.0	4.0	4.1	4.1	4.3	4.4	4.3	4.2
- on savings - Total households	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3
- Total non financial enterprises	1.1	0.9	1.0	1.0	1.0	1.0	1.1	1.0	1.0	1.1	1.2	1.2	1.2	1.2
- on new trading - Total households	0.8	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.8	0.9	0.9	0.9	0.9	1.0
- Total non financial enterprises	1.1	1.0	1.1	1.0	1.1	1.2	1.2	1.2	1.1	1.3	1.3	1.4	1.3	1.3
Interest margin - Total households	7.0	6.0	5.9	5.9	5.8	5.8	5.8	5.8	5.7	5.7	5.6	5.6	5.5	5.5
- Total non financial enterprises	3.5	3.3	3.2	3.2	3.2	3.1	3.1	3.2	3.2	3.2	3.2	3.3	3.3	3.3
Real interest rate (on consumer prices)														
- on credits - Total households	6.0	5.0	4.2	4.3	4.2	4.2	3.9	4.2	4.0	3.8	4.1	5.5	5.3	5.1
- Total non financial enterprises	2.3	2.0	1.3	1.4	1.4	1.4	1.1	1.4	1.3	1.2	1.7	3.2	3.0	2.7
- on new trading - Total households	9.2	8.8	8.5	8.5	7.9	8.3	7.5	7.4	8.1	7.8	8.1	9.7	9.6	9.1
- Total non financial enterprises	1.8	1.7	1.0	1.1	1.2	1.2	0.9	1.2	1.2	1.0	1.6	3.1	2.8	2.5
- on savings - Total households	-1.0	-1.0	-1.7	-1.6	-1.6	-1.6	-1.9	-1.6	-1.7	-1.9	-1.5	-0.1	-0.2	-0.4
- Total non financial enterprises	-1.2	-1.3	-1.9	-1.9	-1.8	-1.8	-2.0	-1.8	-1.9	-2.0	-1.5	-0.1	-0.3	-0.5
- on new trading - Total households	-1.5	-1.3	-2.0	-2.0	-1.9	-2.0	-2.3	-1.9	-2.1	-2.2	-1.8	-0.4	-0.6	-0.7
- Total non financial enterprises	-1.2	-1.2	-1.8	-1.8	-1.7	-1.6	-1.9	-1.6	-1.8	-1.8	-1.4	0.1	-0.2	-0.4

Source: Czech National Bank, CZSO

first time after 32 months in December 2006 (to 29.4%, i.e. to CZK 540.6 billion from 32.5% in December 2005). Growth dynamics lowered especially in the case of consumer credits. **Home loans were growing the fastest**, but loans based on savings for building purposes increased as well because of higher demands of households for own housing. The favourite utilisation climate was characterised by the low level of interest rates and a wide offer of loans, but also the expected increases in DPH (VAT) rates related to construction works on housing projects and the deregulation in the area of rents. The share of household loans in clients' credits increased further in December 2006 to 42% (when it was only 13% in 1993).

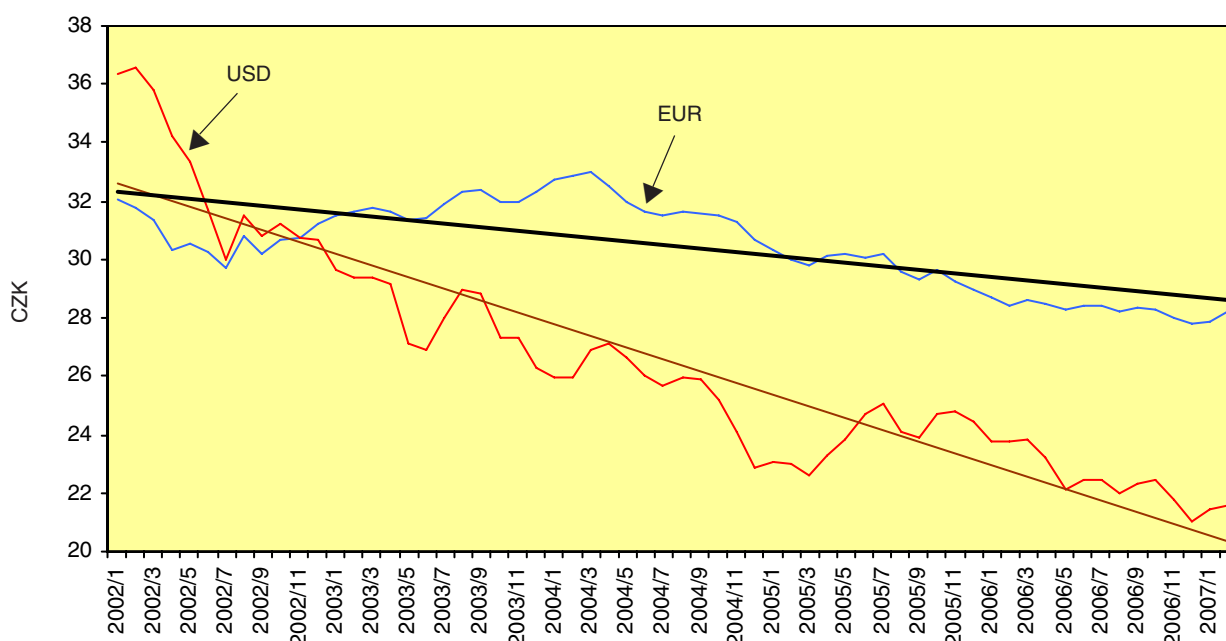
... accompanied by worsening of quality in the credit portfolio

The accompanying phenomenon in the growth of credits was the worsening in the credit portfolio and **the volume of classified credits had been increasing for the second year** (interrupted for a short time in the 4th quarter 2005), while the pace of their growth was growing at the same time (by 22.4% year-on-year in December to CZK 156.3 billion compared with 7.5% in December 2005). However, the share of the total volume of loans had been maintained mostly below the level of 12% in recent years. **The share of loss making loans had been decreasing in a long term** in the structure (down to 15.4%, i.e. CZK 24.1 billion from 16.8% in December 2005), when their volume had also started increasing in the last two years.

The crown was influenced mostly by the sentiment existing in markets within the Central European region

Growth in the interest rates during 2006 in main world economies, especially in EU, was mostly expected in financial markets and thus did not cause any significant volatility in exchange rates. The shift of the Czech crown towards stronger values was supported by increases in the basic domestic interest rates, together with the long-term favourite economic results. However, the decisive development framework of its exchange rate was still primarily determined by the strength of the rates in the Central European region and the situation in the Eurodollar market in 2006. **The crown had been continuously strengthening towards the euro for a half-year**, but there had been the trend of a slight slowdown after the second half of 2005. **Towards the dollar**, it progressively corrected its short-time weakening at the crossroads of 2005 and 2006 and **it had started its trend of appreciation since April, which peaked at the end of 2006**. The crown development towards the two currencies, together with the long trend of equalling, is presented in Graph I.5.1.1.

Graph I.5.1.1 Development in the nominal exchange rate of CZK to EUR and USD (monthly averages from January 2002 to February 2007)



Source: Czech National Bank, MIT graph

The Czech crown thus had taken the full advantage of the inflow of the short-term speculative foreign capital to the Central European foreign currency markets, which was the alternative to investing to the dollars, during the year and **it achieved towards the dollar new maximum values**. Its appreciation towards the dollar was influenced by the falling value of the dollar in world markets caused especially by the expected end in the rates' increases in USA and by the huge deficits in the American current account within the balance of payment, but also by the strengthening of the crown exchange rate towards the euro. The synergy of these two influences allowed the crown to get over its historical maximums towards the dollar during the year (in May, June, and August). This development peaked at the year end, when the Czech crown was breaking, in November, its records for several days in a row. **In December, the crown exchange rate towards the dollar got below the line of CZK 21/USD for the first time in history.** The situation in 2006 can be characterised as follows:

- **The historical maximum** was the exchange rate CZK 20.761/USD on 20 December,
- **The minimum** was the exchange rate CZK 24.559/USD on 2 January,
- The crown appreciated **on average year-on-year** in 2006 by 5.6% (by 6.8% in 2005 and by 8.9% in 2004),
- **When compared with December in the previous year**, the crown appreciated by 14% (while it depreciated by 6.9% in December 2005 and appreciated by 13.1% in December 2004).

The crown appreciation towards the euro at the beginning of the year changed to a slight weakening, which was finished by the sentiment in the region. The crown was supported also by favourite data about the Czech economy and it appreciated to its new maximum in May. The following stagnation or a slight weakening was interrupted in August, when the crown achieved its new maximum caused by the interest of multinational investors. In November, when the investors rearranged their portfolios, the crown had started appreciating again fast and it broke the line of CZK 28/EUR for the first time in history. Thanks to the interest in all Central European currencies, **the crown achieved its new historical record towards the euro in December. Within this development, the crown toward the euro, in 2006:**

- **Achieved the historical maximum** with the exchange rate CZK 27.420/EUR on 20 December,
- **The minimum** was the exchange rate CZK 29.00/EUR on 4 January,
- **The crown appreciated on average year-on-year** in 2006 by 4.8% (by 6.6% in 2005, while it slightly weakened by 0.2% in 2004),
- It appreciated by 4.1% **when compared with December in the previous year** (by 5.5% in December 2005 and by 5.2% in December 2004).

While the nominal exchange rate of the crown has been appreciating in a long term, its real rate shows a less sharp development line (see Graph I.5.1.2). The cause is the difference between the developments in the domestic price level when compared with consumer prices in both currency territories. The price level in the Czech Republic was growing slower than in USA, especially in the 1st half-year, while it was almost identical with the price level in the Eurozone. In the second half of the year, **the crown started slightly slowing down its year-on-year real appreciation towards the euro and it temporarily also slowed down the high real appreciation towards the dollar**, which it renewed again in May after the 6 months long interruption. From this point of view, the competitiveness of Czech products on both euro and dollar markets further worsened in 2006. In real terms, the crown:

- Appreciated towards euro year-on-year in December by 3.9% (by 5.4% at the

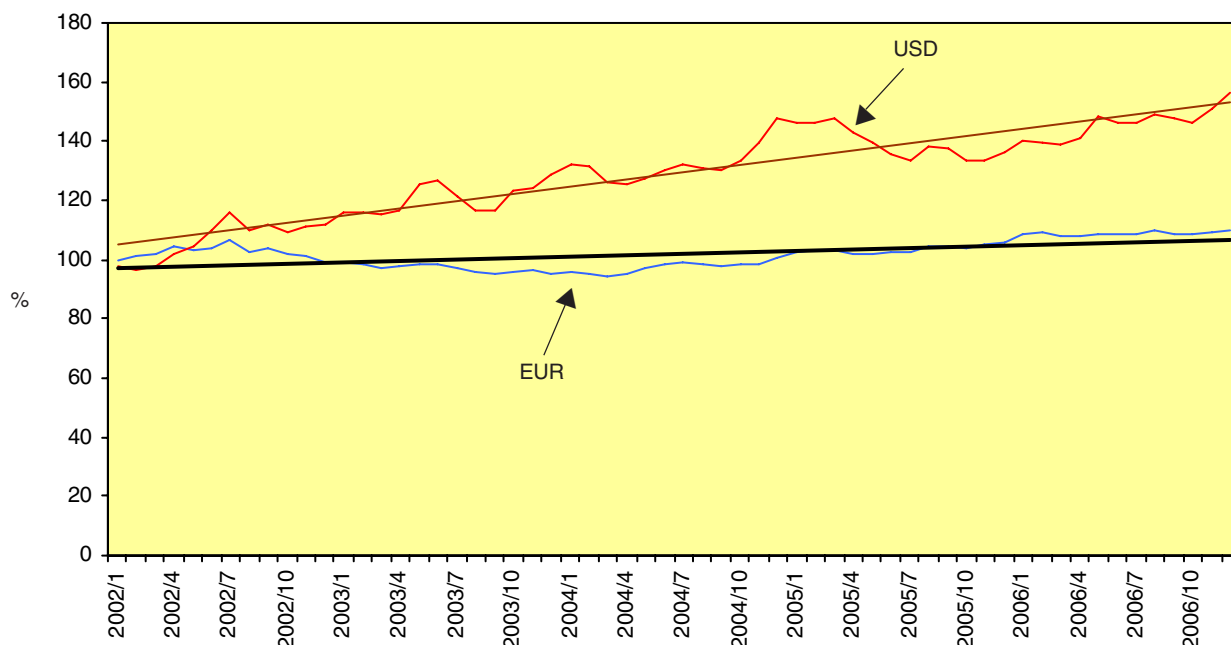
The year 2006 was the year of new historical maximums of the Czech crown towards the dollar...

... and the euro

The crown appreciated towards both currencies in real terms

end of 2005 and by 5.6% at the end of 2004), and towards the dollar by 15.1% (while it depreciated by 7.8% at the end of 2005 and appreciated by 14.3% in 2004).

Graph I.5.1.2 Development in the real exchange rate of CZK to EUR and USD
(2.1.2002 = 100, deflated by consumer prices)



Source: MIT calculations of data from Czech National Bank, CZSO, Eurostat and the US Bureau of Labor Statistics, MIT graph

The balance of payments finished with a small surplus...

The summary result of economic transactions with foreign countries in 2006, expressed with the balance of all balance of payments' accounts, **was positive** (CZK 2.1 billion, i.e. USD 0.1 billion), but it had been the lowest annual inflow of resources in the history of the Czech Republic (with the exceptions of 1996 and 1997, when the balances were negative). While the total balance was positive in the 1st and 3rd quarters, it required the involvement of foreign currency reserves in the 2nd and 4th quarters. As **the inflow of resources to the financial account** (CZK 111.6 billion, i.e. USD 4.9 billion) and **the growing surplus on the capital account** (CZK 8.6 billion, i.e. USD 0.4 billion) **could not cover the increasing deficit on the current account** (CZK 133.8 billion, i.e. USD 5.9 billion), the final **positive result was generated by exchange rate differences**, mistakes and omissions (CZK 15.6 billion, i.e. USD 0.7 billion). The development on main accounts in the balance of payments is presented in Table I.5.1.3.

... despite the pronounced deficit increase on the current account...

The deficit on the current account in the balance of payments almost doubled year-on-year in 2006 (with the growth by CZK 56.7 billion) and did not thus confirm the declining trend in its deficits foreshadowed in the previous year. After a small surplus in the 1st quarter, negative balances of the following quarters exceeded CZK 40 billion and peaked with the value of CZK 50.4 billion in the 4th quarter. **The changes in the structure became apparent**, when the surplus in the balance of trade had been increasing for the second year, but the balances of all other items further worsened. The development on the current account thus **reflected the following trends in 2006**:

- **Growth in the balance of trade surplus** (by CZK 5.8 billion), which was created mainly in the 1st quarter, with the same paces of growth in exports and imports (while the export dynamics were almost twice as high as in imports in the previous year). Chapter IV deals with the analysis of the balance of trade in detail.

Table I.5.1.3 Development in main accounts of the balance of payments (in billion CZK)

	Year							Y-o-y change in %
	2000	2001	2002	2003	2004	2005	2006	
Current account	-104.9	-124.5	-136.4	-160.6	-167.3	-77.1	-133.8	73.6
Trade balance	-120.8	-116.7	-71.3	-69.8	-26.4	38.6	44.4	14.9
Service balance	54.6	58.0	21.9	13.2	12.5	20.3	12.5	-38.4
Income balance	-53.0	-83.5	-115.6	-119.9	-157.8	-155.7	-183.4	17.8
Current transfers	14.4	17.8	28.7	15.8	4.3	19.7	-7.2	x
% of GDP	-4.8	-5.3	-5.5	-6.2	-6.0	-2.6	-4.2	-1.6
Financial account	148.0	172.8	347.8	157.1	183.7	154.8	111.6	-27.9
Direct investments	190.8	208.3	270.9	53.5	101.8	279.6	104.3	-62.7
Portfolio investments	-68.2	34.9	-46.7	-35.7	59.4	-81.2	-26.9	-66.9
Other investments	26.9	-67.1	127.9	135.5	25.7	-40.8	40.5	x
% of GDP	6.8	7.3	14.1	6.1	6.6	5.2	3.5	-1.7

Source: Czech National Bank, CZSO

- **High decline in the positive balance in the balance of services** (by CZK 7.8 billion) roughly down to the level of 2004. Expenditures grew faster (by 6% year-on-year) than the revenue (by 2.5%), where the pace of growth slowed down almost to a half. This resulted from the decline in the positive balances of transport (by 4.8% year-on-year to CZK 33.9 billion) and the travel industry (by 1.8% year-on-year to CZK 53.1 billion) accompanied with the further growing deficit in the balance of other services (by 7.4% year-on-year down to CZK 74.5 billion). Despite exports, especially of telecommunication, technical, and computing services and services in the area of waste management, growing faster (by 8.7%) than expenditures (by 8%), imports were in their volume twice as high and drove thus the balance of other services to the high deficit and decrease significantly the total balance of services.
- **Further significant growth in the deficit of the income balance** (by CZK 27.7 billion), which had been the biggest burden on the current account for five years. While the deficit got slightly lower in the previous year, it increased again year-on-year in 2006 because of higher increases in expenditures (by 16.6%) than in the incomes (by 14.8%). The decisive part was made up by investment revenues (80.5%, i.e. CZK 147.7 billion). The remaining part related to compensations to employees. The deficit in the investment revenues related to paid dividends and, especially, to the volume of reinvested profits (57%) reaching CZK 75 billion and making thus almost 72% of direct investments. The importance of reinvestment in the form of profits for the development on the current account has been stressed by the fact that if their balance were excluded from the income balance, the deficit on the current account would decrease down to CZK 58.8 billion, i.e. 1.8% of GDP.

Incomes from direct investments dominated in the outflow of investment incomes (73.5%, i.e. CZK 180.3 billion) followed by incomes from other - interest-oriented investments (18.8%, i.e. CZK 46 billion) and portfolio investments (7.8%, i.e. CZK 19 billion). There were profits from direct investments reinvested back to the domestic economy worth CZK 82.1 billion, i.e. more than 33% of investment incomes.

- **The turning of the balance of current transfers** to negative values (for the first time in history of the Czech Republic) in the second quarter 2006 down to the final CZK 7.2 billion in the year. Expenditures grew by private transfers, fees, paid taxes, and the negative balance of financial flows of the Czech Republic in relation to the budget of the European Union.

... it was not covered by resources on the financial account

Inflow of resources onto the financial account in 2006 was influenced by lower direct investments, while the outflow of portfolio investments and the re-direction of resources in the area of other investments took place at the same time, **and it had been the lowest in the last seven years**. The surplus decreased year-on-year by almost one third (by CZK 43.2 billion). **It was the result of:**

- **Important lowering of the total balance of direct investments** (roughly to one third, i.e. by CZK 175.3 billion) because of the high level in the previous year, where privatization of state involvements in Unipetrol and Czech Telecom were finalised. Foreign direct investments lowered in the country below the level of 50% of the previous year (by CZK 144.5 billion) and almost two thirds of them were the reinvested profits (CZK 82.1 billion). High outflows of domestic direct investments abroad (CZK 30.4 billion) acted against this inflow. The outflow related to investments taking place especially in Bulgaria, Poland, and Russia.
- **Sharp decline in the outflow of portfolio investments** (by CZK 54.3 billion in total) took place in the 4th quarter. The result was determined by purchases of foreign securities by domestic investors, by foreign investors' demands on domestic shares and debentures, by the payment of an issue by a domestic subject on foreign financial markets, and by in volume important issue of debentures by a domestic subject abroad in the 4th quarter.
- **Volatile development in other investments during the year**, when the high inflow of resources from abroad, in the 2nd and 3rd quarters 2006, was partly eliminated by the outflows in the 1st and 4th quarters. The changed position of the banking sector was decisive for the resulting inflow of resources from abroad. Thanks to its transactions, there came CZK 25 billion in (while the sector reported the outflow worth CZK 91.8 billion at the end of 2005). The utilisation of resources from abroad by the government sector decreased year-on-year below a half (CZK 14.5 billion), when the balance was influenced by the utilisation of a credit from EIB used for the construction of the transport infrastructure and for the funding of projects at the regional level, together with the increased share of the Czech Republic in foreign institutions and payments of the earlier received loans. The lowest inflow of resources from abroad was reported by the enterprising sector (it decreased by 93.9% year-on-year down to CZK 1 billion), when it preferred paying off loans and increasing the volume of means provided abroad to the utilisation of loans.

The capital account started to gain a greater weight in the balance of payments

The balance of the capital account increased year-on-year by 77.8% and the highest volume so far (CZK 8.6 billion, i.e. USD 0.4 billion). It was influenced by net incomes from funds of the European Union, by the settlement of a part of the loan provided by the Czech Republic to Iraq on the basis of an intergovernmental agreement, which respected the decision by the Paris Club of Creditors made in 2004, by the executed unblocking operations, and by the active balance related to the trading in patent rights and in emission permits.

Reserves of foreign currencies decreased

Reserves of foreign currencies were mostly decreasing during 2006 down to CZK 656.6 billion at the year end (i.e. the year-on-year decrease by CZK 70.1 billion in total). In the dollar terms, they increased, thanks to the exchange rate changes, to USD 31.5 billion (i.e. by USD 1.9 billion). They covered 3.3 monthly imports of goods and services (they were 4.2 months at the end of 2005), when the three-month coverage is considered safe. In addition to the result of the balance of payments in 2006 (CZK 2.1 billion) and the differences from exchange rate changes, there were also the revenues from investments of foreign currency reserves influenced as well as by the realisation of these revenues and the resulting balance of executed clients' transactions. After their growth in January 2007, they slightly decreased again in February to CZK 675.9 billion, i.e. USD 31.6 billion.

Growth of the foreign debt continued

The gross foreign indebtedness continued its long-term growth and reached

CZK 1 217 billion, i.e. USD 58.3 billion, on 31 December 2006. It had been the highest value since 1993, when it had exceeded for the first time the limit of one trillion crowns in December 2004. When compared with the end of 2005, it increased by CZK 74.8 billion, i.e. by 6.6%. **The level of foreign debt equalled 38% of GDP** (38.5% at the end of 2005) and remained thus still below the generally recognised „safe“ level of 40%. **The time structure continued its development towards long-term undertakings**, which increased by CZK 61.3 billion, i.e. by 7.8%, when they slightly increased their share in the total indebtedness (by 0.8 p.p. to 69.4%) and **made up thus its decisive part** (CZK 844.8 billion, i.e. USD 40.5 billion). The short-term indebtedness increased by only 3.8%, i.e. by CZK 13.5 billion (to CZK 372.2 billion, i.e. USD 17.8 billion).

I.5.2 Foreign direct investments

Foreign direct investments mean for the Czech Republic more intensive involvement in global economic relations and they are, at the same time, one of the important factors within the economic growth and in increasing the competitiveness.

FDI mean a higher involvement in the world economy

Most foreign direct investments related, at the beginning, to purchases of state participations in big companies and focussed on proved productions and extensions of assembly stages of the export-oriented industries mostly within the manufacturing industry.

Consequently, **the qualitative shift in the structure of foreign direct investments** has shown recently in a more pronounced way as foreign companies invest also into the areas with high value added (the development of software, IT services, call-centres, and shared centres for accounting and financial operations), which allow for the utilisation of highly qualified work force.

Graph I.5.2.1 clearly shows that after the initial big deposits of foreign investors to equities of Czech companies - in connection with important privatisation actions - **the structure of foreign direct investments has progressively changed and the more important role is now played** by reinvested profits put by investors into further company extensions. Biggest privatisation actions took place in 2002, especially when Transgas was privatised. In 2005, the state shares of Czech Telecom, Unipetrol, and Vítkovice Steel were sold.

The reinvested profits participated most in foreign direct investments

The inflow of foreign direct investments into the Czech Republic reached in 2006 CZK 134.7 billion (i.e. USD 6.0 billion). This included reinvested profits worth CZK 82.1 billion (i.e. USD 3.6 billion), investments in equities worth CZK 35.5 billion (i.e. USD 1.6 billion), and in other capital worth about CZK 17.1 billion (USD 0.8 billion). When compared year-on-year, there was a significant decrease (by CZK 144.5 billion) and that was influenced by the high comparison base (the income from sales of the state participations in Unipetrol and Czech Telecom in 2005).

The biggest volume of foreign direct investments originated in countries of EU-25 and went to the manufacturing industry

The situation in 2006 suggested that the inflow of foreign direct investments into the Czech Republic would probably slow down in near future. The reason relates to the end of big privatisation actions, which generated the high flows in the past.

The shares of the privatisation actions in the total FDI inflow in the period 1993 - 2005 are presented in Table I.5.2.1.

There were investments from EU-25 countries highly prevailing in the structure (CZK 118.7 billion), mainly from Luxembourg (CZK 29.1 billion), Germany (CZK 26.2 billion), Austria (CZK 18.9 billion), the Netherlands (CZK 15.0 billion),

Table I.5.2.1 Privatisation shares participation in the total FDI inflow

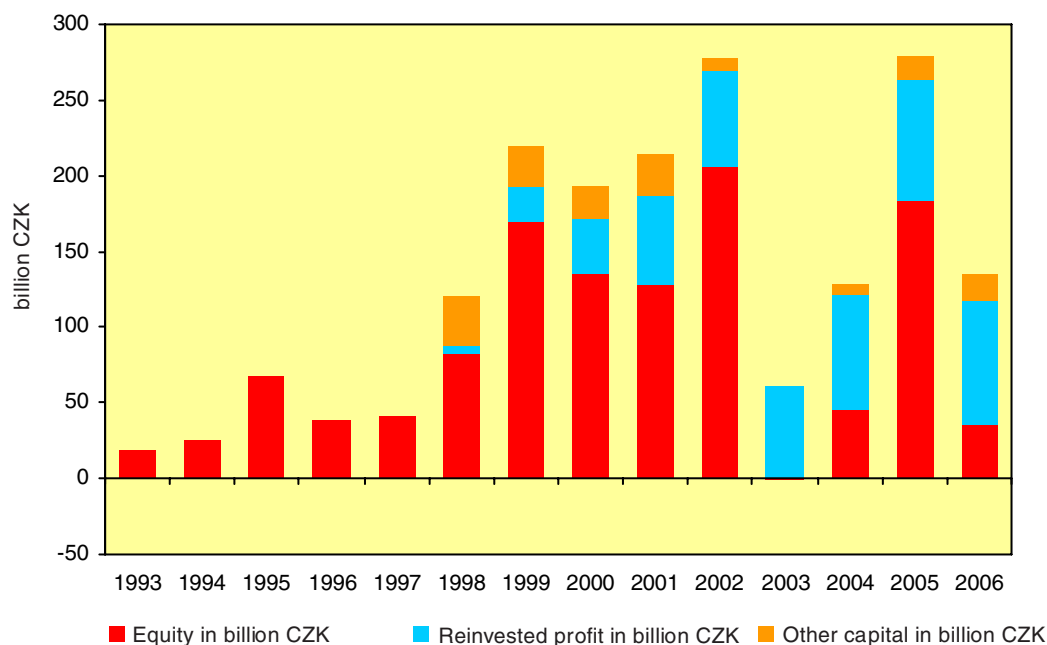
	FDI inflow to the Czech Republic (in million CZK)	Privatisation action (in million CZK)	Share of privatisation actions in the total FDI (%)	The most important privatisation actions
1993	19 050.4	8 466.5	44.4	Czech Telecom (a partial privatisation)
1994	24 994.4	4 145.2	16.6	
1995	67 992.8	4 262.3	6.3	
1996	38 774.8	625.5	1.6	
1997	41 251.4	456.2	1.1	
1998	119 968.5	4 069.9	3.4	Czechoslovak Trading Bank (CSOB) Czech Saving Bank Commercial bank, Czech Radio-telecommunications Transgas
1999	218 811.5	24 577.6	11.2	
2000	192 421.1	30 870.0	16.0	
2001	214 585.3	60 766.8	28.3	
2002	277 689.5	125 576.5	45.2	
2003	59 316.0	3 056.7	5.2	Unipetrol, Czech Telecom
2004	127 843.6	497.7	0.4	
2005	279 181.5	104 781.0	37.5	

Source: Czech National Bank, National Property Fund

Cyprus (CZK 12.5 billion), and the United Kingdom (CZK 11.9 billion). Other, but less important investments came from the Slovak Republic, France, and the United States of America.

Foreign direct investments went especially into the manufacturing industry (CZK 49.5 billion), properties and services for businesses (CZK 44.2 billion), trade and repairs, and to the finance mediation.

Graph I.5.2.1 Structure of the foreign direct investment inflow to the Czech Republic in the period 1993 - 2006 (in billion CZK)



Source: Czech National Bank, MIT graph
Note: By 1997, the data include only foreign direct investments into equity

Domestic companies also invested mostly in the EU-25 countries...

The outflow of foreign direct investments from the Czech Republic amounted in 2006 to CZK 30.4 billion, i.e. USD 1.3 billion. This included investments to equities worth CZK 22.1 billion (i.e. USD 1.0 billion), reinvested profits worth

CZK 7.2 billion (i.e. USD 0.3 billion), and to other capital. Czech enterprises invested mostly in EU-25 countries, specifically in the Netherlands (CZK 11.6 billion), Slovakia (CZK 2.3 billion), and Germany (CZK 2.2 billion). A high share of foreign direct investments went also to Bulgaria (CZK 6.7 billion) (mostly in connection with acquisitions by ČEZ). **From the branch point of view, most investments went to industry**, especially into the energy industry (CZK 18.2 billion - in connection with foreign activities by ČEZ) and into the manufacturing industry (CZK 2.0 billion).⁴

I.6 Capital market

Global share markets were characterised by mixed development in 2006 and could be called unstable. After the initial boom, when positive results, especially of the American economy, influenced the growth in world capital markets and thus also share prices, there were a turnaround and uncertainty (with regard to the interest rates in USA and EU, further development, prices of energy commodities, and also geopolitical risks) characterised by waves of sell outs which marked all financial markets, including our region. In the second half-year, the development in share prices was positively influenced by the armistice in the Middle East and by decreasing prices of crude oil. However, there were also negative influences caused by bad results coming out of the telecommunication sector and terrorists' threats. However, worries of slowdowns in the American and European economies were not fulfilled. However, we cannot forget the fact that performances of both economies were influenced in a positive way by the mild winter, which, in combination with lower oil prices and strong demands, contributed to the stability in these economies. The influence of the mentioned factors reflected also in the development in individual markets at the beginning of 2007.

World markets were influenced by uncertainty...

The rates in American capital markets reported a high imbalance in 2006 - while the technological index Nasdaq Composite had fallen since the year beginning by more than 20% despite the development in the 1st quarter, the Stock Market Index S&P 500 strengthened (by 12.6%). Main **European share markets performed better**. They were also corrected, but they reported the increasing trend in the second half-year (the highest growth was reported by German DAX - by 20.9%). In contrast, **markets in the Central European region and their indices had been positive**, thanks to the favourite and stable economic development, interest and trust of investors. This applied especially in the case of the Polish WIG (increasing by 40.1%) and the Hungarian BUX (by 19.1%).

... accompanied with high volatility in share prices

The year 2006 was marked in the Praha Stock Exchange by important changes taking place in the area of stock exchange indices. The indices PX 50 and PX-D were replaced on 20 March by a single index PX, which took over the history of the index PX 50. The calculation of branch indices finished on 28 February. **Index PX finished the year 2006 with the value of 1 588.9 points, i.e. it increased year-on-year by 7.9%.** The growth mostly resulted from the year-on-year growth in the value of ČEZ shares by 30.4% and Erste Bank shares, which increased by 16.7%. Index PX has been further growing since the beginning of 2007 thanks to the good economic forecasts for the Czech economy, but also for individual companies. It reports extraordinary values (it has reached the highest values in its history on 6 February - 1 718.4 points, i.e. the increase by 6.2% since the year beginning).

The domestic market index continued growing within the Central European indices

⁴ Any difference between the sum of partial values and the total value has been caused by rounding.

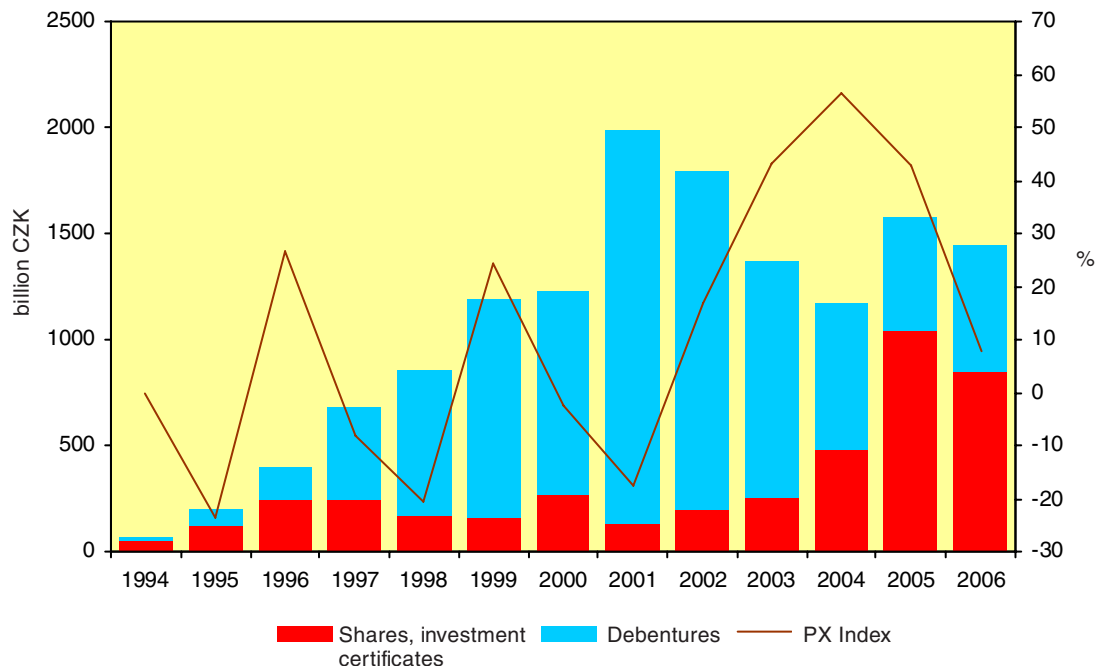
BCPP mediated most trades in the domestic capital market

The shares of traded shares and of debt securities were getting again into balance

The Security Exchange in Praha ensured, with CZK 1 447.9 billion, 99.6% of transactions in the total volume of trades completed in the domestic capital market worth CZK 1 454.4 billion. The reminder belonged to RM-System and SCP.

The year 2006 was successful for the Praha Stock Exchange also in relation to trades. Their **volumes reached the second highest value in the history in the share market** (CZK 849.0 billion) and stayed behind the maximal value, achieved in 2005, in the year-on-year comparison by 18.5%. **Despite renewed increases in the volume and in the share of trading with debentures within the total trades**, the trend of changes in the structure of completed trades, for the benefit of transactions with shares and investment certificates, continued (the trend started again in 2005). The most liquid issue was that by ČEZ with the volume of CZK 347.5 billion followed by issues by Zentiva (CZK 107.2 billion) and Commercial Bank (CZK 105.6 billion). **The volume of debenture trading** reached the value of CZK 598.9 billion in 2006 and **increased year-on-year** by 12.3%. The state bonds had the share of about 90.0% in this volume. The review of the structure and of the development in trades within BCPP and Index PX is presented in Graph I.6.1.

Graph I.6.1 Development in main BCPP indicators (trading in billion CZK, the PX Index year-on-year in %)



Source: BCPP, MIT graph

Market capitalisation further increased

The market capitalisation of the share market reached CZK 1 592 billion (CZK 953.9 billion related to domestic issues and CZK 638.1 billion related to foreign issues) and increased year-on-year by 19.6%. The three issues with the highest capitalisations included ČEZ (CZK 568.5 billion), Erste Bank (CZK 504.8 billion), and Telefónica O₂ CR (CZK 153.3 billion).

Stock Exchange started trading in new securities in 2006

Stock Exchange in Praha received, on 18 July 2006, the permit on trading in new kinds of investment instruments from the Czech National Bank - **the trading in investment certificates, option documents, and other domestic securities**. This permit extends the use of support assets for the trading in futures (i.e. with shares accepted for trading on an organised market in a EU or OECD country, with the index of share markets in EU or OECD countries, the EU or OECD country currency, price and/or the revenue of a state debenture issued by a EU or OECD country denominated in the currency of a EU or OECD country, including baskets of such debentures, the price of a commodity determined by the organised market

Table I.6.1 Trading in BCPP since 1994

Year	Total volume of trading) (in billion CZK)	Number of issues (the situation at the year end)	Market capitalisation (in billion CZK, the situation at the period end)	
			Shar. and invest. certif.	Debentures
1994	62.0	1 055	353.1	50.0
1995	195.4	1 764	478.6	87.8
1996	393.2	1 750	539.2	136.9
1997	679.5	412	495.7	174.0
1998	860.2	402	416.2	198.1
1999	1 187.5	290	479.6	231.1
2000	1 222.8	245	442.9	280.1
2001	1 987.2	186	340.3	319.4
2002	1 793.1	153	478.0	372.5
2003	1 367.5	146	644.5	505.5
2004	1 172.1	134	975.8	577.0
2005	1 574.4	135	1 330.8	x
2006	1 447.9	142	1 592.0	x

Source: BCPP

placed in EU or OECD). The important moment in the project was the extension of the original licence issued in 2001, which allowed trading only with some of the mentioned investment instruments. There have been seven issues of investment certificates, two futures' series, and a warrant issue introduced into the market:

- The Stock Exchange started **trading in investment certificates** on the official free market on 4 October 2006. The issuer of these instruments has been Raiffeisen Centrobank AG and they were the first instruments of this kind introduced into the market in Praha. Investment certificates reached the volume of CZK 5.2 million in 2006,
- **The trading in futures**⁵ started, on 5 October 2006, with contracts on the stock exchange index PX. These financial instruments have been traded on a special regulated Stock Exchange market using the environment of the trading segment SPAD. The futures' issues reached the total volume of CZK 32.2 million,
- The trading in **warranties**⁶ started on the official free market on 11 December 2006. Warranties by ECM Real Estate Investments AG have become the first instruments of this kind introduced into the market in Praha.

Shares of the following companies belonged among **the main Stock Exchange titles in 2006**:

- **ČEZ (Czech Energy Plants)** continued in the implementation of its strategy in becoming the leader on energy markets in the Central and South-East Europe. The vision got closer by acquisitions of Polish power stations Skawina and Elcho which meant the definite entry to the strategic Polish market (it has become a part of the Stock Exchange WIG 20 in Warsaw in February 2007). It has also gained the majority shares in three Bulgarian distribution companies and in a Bulgarian power station in Varna - the biggest coal power station in the country,

⁵ The financial instrument of the kind which presents an undertaking (a fixed agreement) concluded between the seller and the purchaser providing for the obligation to sell or purchase certain assets (shares, commodities, or currencies) of an agreed amount at the beforehand determined time and for the beforehand determined price. The trades thus present an assumption of future development in price of the asset.

⁶ This is an investment instrument of a security kind providing the owner for the right, not the obligation, to purchase (a call warrant) or sell (a put warrant) a certain set of the assets at the beforehand determined date for the beforehand determined price.

where ČEZ had already owned the distribution network. The company negotiated the acquisition of shares in Ukrainian distribution companies, participated in the tender on the sale of the Romanian distribution company Muntenia Sud, showed an interest in the Romanian coal power station Complexul Drakova, wished to expand in Macedonia, Polish Kozienica and Dolne Odre, in Bosnia, Serbia, Montenegro, and in other places. In the Czech Republic, it has been modernising its coal power stations and its shares started to be traded in the Warsaw Security Exchange in October (the dual listing),

- **Czech Telecom** merged with its subsidiary Eurotel by Eurotel transferring its equity to the 100% shareholder Czech Telecom. The reason behind the merger was the decision to offer joint packages of fixed and mobile services, which would strengthen the market position of the company, save a lot of costs, and unify networks' services. The company has started using the new name Telefónica O2 CR since 1 July 2006. The shares of this company, which has been the preferred telecommunication enterprise in the Central and Eastern Europe and which increased its forecasted profits and has got low indebtedness and huge kept profits, could be considered perspective,
- **Unipetrol** was sold within the privatisation of the state participation to the Polish oil concern PKN Orlen. In future, it wishes to focus on petrochemistry, refining, sales of fuels, and wants to put big stress on higher effectiveness. However, the development in crude oil prices, petrochemical margins, and the company restructuring will be crucial. They consider selling the agricultural chemistry branch, special chemistry, and all obsolete technologies. There should be some changes taking in Benzina and the company has announced the sale of Spolana to the Polish subsidiary Anwil. In near future, the concern wishes to invest into the extension of production capacities in Chemopetrol Litvínov and into the refining capacities of Česká rafinérská in Kralupy and Litvínov,
- **Zentiva** - as a typical growing company, it acted in export markets in Poland, Russia, Romania, and in Baltic countries last year. After the successful consolidation of the Romanian Sicomed, it has been planning further international expansion in Bulgaria, which should become one of the future key markets. A quarter share participation in Zentiva was gained by Sanofi-Aventis (one of the most important pharmaceutical enterprises), which has become its biggest shareholder.

Trading in RM-S and SCP was further significantly declining

RM-System covered 0.3% of transactions with the share and investment certificates' trading worth only CZK 3.9 billion (the year-on-year decrease by 28.4%). The RM Index reached the value of 2 595.3 points and thus increased year-on-year at the end of the year by 9.7%.

RM-SYSTEM, a.s. had prepared a change in its price indicator PK 30 for 17 July 2006. The new index called RM has continued the previous index, but decreased the number of issues on the index base from 30 to 10.

The volume of trades, which took place in the Securities Centre and were worth CZK 2.6 billion (thereof shares and investment certificates worth CZK 2.1 billion), decreased year-on-year by 82.1%.

I.7 Financial situation of non financial sector

Financial results of companies within the non financial sector (with 100 or more employees) **reflected the favourite development in the whole economy**, when the growing foreign and domestic demands and increasing investments reflected in **higher revenues and faster growth in the revenue, when compared with costs**, showing in the growing gross profits. The dynamical growth in assets of companies was not only the result of increased new or extended existing capacities, but it resulted also from re-evaluating of assets by some companies and from organisational changes.

Financial indicators improved year-on-year

By the branch structure of the non financial sector,⁷ industry participated most favourably in the positive development in financial results. It had the decisive weight in the results of the non financial sector followed by the trade, services for businesses, and construction. The year-on-year decline or the very small growth in most financial indicators was reported by accommodation and catering. The year-on-year worsening took place in agricultural organisations, which were involved in plant or animal productions (in contrast, a significant improvement in financial results was reported by forestry - wood cutting). The development in financial indicators in industry and construction has been analysed in detail in the relevant chapters.

The year-on-year comparison of selected financial indicators had progressed as follows:

The book value added grew differently in all industries

The book value added increased its pace of growth from 6.3% (in 2005) to 11.9%, while **outputs grew slower (16.7%) than the output consumption (18.6%)**. From the branch structure point of view, the highest growth took place in services for businesses (see Table I.7.1), thanks to the inclusion of new enterprises (the restructuring in the energy industry), followed by trade (especially in retail chain organisations) and construction. The book value added growth in industry was slightly below the average of the non financial sector, but its weight had been 63% of the total book value added in the non financial sector. **The big majority of industries in the non financial sector speeded up the year-on-year growth of the book value added** (with the exception of accommodation and catering) from the decrease in 2005. Thanks to forestry (the wood cutting), the aggregation of agriculture, forestry and fisheries grew. The year-on-year comparison of results reported by transport and telecommunications was influenced, in a negative way, by the transfer of RWE Transgas, a.s. to industry in 2006.

The almost double pace of growth in the book value added was positively influenced by some organisations, which had reported a very low or negative book value added in the previous year, when they started producing, and which significantly improved their results in 2006.

Labour productivity based on the book value added, in current prices, grew by 9.3% to CZK thous. 697.1 per employee (by 4.9% in 2005), while **employment grew** by 2.4% (without workers hired through job agencies). Industry stayed with its achieved level in the leading position (CZK 782.8 thousand/employee). Industry,

Labour productivity grew slower than the book value added

⁷ The year-on-year comparison was influenced by extensive restructuring in the energy and gas industries, where new subsidiaries were founded. They belong to different parts of the non financial sector, according to their prevailing economic activities (NACE). Another important influence was the inclusion of the year 2006 data from RWE Transgas, a.s. in industry, while the year 2005 data remained in transport.

Table I.7.1 Year-on-year development in the book value added and labour productivity based on the value added in current prices (organisations with 100 or more employees)

	Book value added				Book value added per employee	
	billion CZK	Structure in %	Year-on-year change in %		thousand CZK	Year-on-year change in %
			2006/2005	2005/2004		
Non financial sector	1 105.5	100.0	11.9	6.3	697.1	9.3
thereof:						
Industry	695.8	62.9	11.1	6.1	782.8	10.6
Construction	49.7	4.5	16.4	5.2	647.3	15.3
Trade	98.2	8.9	17.6	10.9	593.0	8.8
Accommodation and catering	10.2	0.9	1.1	2.0	478.3	-0.3
Transport, warehousing, and communications	138.1	12.5	4.4	2.1	680.1	6.1
Property leasing, business services, and research	64.4	5.8	29.2	23.9	566.7	10.8
Other services	31.1	2.8	20.3	4.0	468.3	2.0
Agriculture, forestry, fisheries	18.0	1.6	4.7	-6.1	358.3	12.6

Source: CZSO

similarly like in 2005, exceeded the average level of the non financial sector by 11%.

Prices had different impacts on the value of the book value added, according to industries

The development in the book value added related on one side to the output volumes and dynamics (the revenue from own production - the impact of demands) and to the trade margin (in the case of trading organisations) and, on the other side, to the output consumption, influenced by the price development (the foreign trade and producers). Price impacts reflect in a different way, depending on the export performance, import and energy demands, and the structure of supplies in individual industries or enterprises.

The pronounced growth in gross profits...

Total receivables (14%) grew faster than costs (13.3%) and the gross profits thus grew by 26.8%, to CZK 336.7 billion. Their growths were mostly influenced by profit making organisations (see Table I.7.2), while the decreased volume of losses had the main positive effect.

Table I.7.2 Profit/Loss before tax, changes in profit/loss (organisations with 100 or more employees)

	Profit/Loss before tax			Year-on-year addition/loss in billion CZK	Impact on the year-on-year change in billion CZK	
	billion CZK	Year-on-year change in %	Share in %		Profit	Loss
Non financial sector	336.7	26.8	100.0	71.3	65.1	6.1
thereof:						
Industry	237.8	28.2	70.6	52.4	49.3	3.1
Construction	14.7	28.3	4.4	3.2	3.5	-0.3
Trade	30.1	59.1	8.9	11.2	10.4	0.8
Accommodation and catering	2.0	-11.1	0.6	-0.2	-0.2	0.0
Transport, warehousing, and communications	33.4	4.5	9.9	1.4	-2.4	3.9
Property leasing, business services, and research	10.8	36.3	3.2	2.9	3.6 -	0.7
Other services	3.9	-21.9	1.2	-1.1 -	0.2	-0.9
Agriculture, forestry, fisheries	4.1	59.0	1.2	1.5	1.2	0.3

Source: CZSO

Production factor⁸ worth CZK 54 billion had the decisive impact (three quarters) on the absolute year-on-year increase in the gross profits (CZK 71.3 billion). **Non production factor**⁹ had also a positive impact (worth CZK 17.3 billion).

... with the decisive impact of the production factor

The above presented Table clearly shows that **most industries improved their gross profits** (with the exceptions of accommodation and catering and other services). The biggest growth (by 59%) took place in trade (growth in the industries of sales of motor vehicles and fuels, but also in wholesale and retail organisations) and, identically, in the aggregation of agriculture, forestry, and fisheries (however, the growth took place only in wood cutting) and also in services for businesses (also thanks to new organisations within the restructuring of the energy industry). Growth was identical in industry and construction, when industry participated with almost 71% in gross profits of the non financial sector. Growth in gross profits in transport and communications¹⁰ was facilitated by organisations active in the area of telecommunications and postal services, while air transport created losses (however, the loss decreased year-on-year).

Profit making organisations made up 79% of the total number of enterprises. Their number **increased** year-on-year by 3.9% and **the profit volume** increased by 21.1% to CZK 374 billion (by CZK 65.1 billion absolutely). Industry and trade had the fundamental influence on the improvement in profits, while transport and warehousing reported decreased profits in profit making organisations. **The volume of loss decreased** year-on-year by 14.1% (by CZK 6.1 billion absolutely), down to CZK 37.4 billion. The number of loss making organisations decreased by 4%, down to 951 enterprises. The loss decreased mostly in transport, warehousing and communications, but also in industry.

Profit grew in profit making organisations and the loss decreased

Outputs increased year-on-year in the non financial sector by 16.8% and made up 69% of the total receivables. Among the monitored items, we can also specify revenues from the sales of goods, which grew by 4.7% and made up 23% of the total receivables (87% in trade), other not specified receivables (estimated) grew year-on-year by 19.3% and their share in the structure of receivables remained at 8%.

The fundamental impact of outputs on growing receivables

Output consumption had the biggest impact on the growth in the total costs (growth by 18.6%). The growth was different in all industries within the non financial sector. The costs mostly increased in services for businesses and in other services. **Industry had the prevailing influence on their growth in the non financial sector** (with the year-on-year growth of almost 20%). The second highest growth took place in other not specified costs (14.6%) followed by personal costs (9.5%) and finally depreciation (7.5%). These increases reflected in the structure of costs by growing share of the output consumption (by 2.5 p.p.) to 56.3% and growing shares of other costs (by 0.1 p.p.) to 8.3%, while the shares decreased in the case of costs of sold goods by 2 p.p. to 20.7%, personal costs by 0.4 p.p. to 10.6% and depreciation by 0.2 p.p. to 4.2%.

Total stock increased year-on-year by 10.4% to CZK 441.8 billion, while it increased year-on-year only by 4% in 2005. **Industry was behind the growing stock** (by 14.2%). It participated in the stock addition within the non financial sector (CZK 41.5 billion) with almost 91% (its addition reached CZK 37.6 billion). The stock of materials increased by 12.8% to CZK 149.3 billion, the stock of production in progress increased by 10.5% to CZK 103 billion, the stock of products grew by 20.6% to CZK 80.5 billion, and the stock of goods increased by 0.9% to CZK 109 billion.

Growth was faster in stock

⁸ Production factor = the year-on-year change in the net surplus from operations = the book value added - personal costs - depreciation

⁹ Non production factor = the year-on-year change in the balance of other receivables and other costs

¹⁰ The year-on-year comparison was influenced by the transfer of RWE Transgas, a.s. to industry in 2006

The stock turnover (calculated to the total revenue¹¹) was faster year-on-year by 1 day to 31.2 days. It became shorter especially in transport, warehousing, communications, and agriculture, forestry and fisheries.

* * *

The number of proposed bankruptcies continued growing

Together with improvements in the financial situation within the business sector and with the growing economy, there is some „cleaning“ taking place among enterprising subjects, thanks to the more competitive environment. This reflected in the development of the number of bankruptcies. This area was also influenced by the quality of the business and legal environments.

The number of proposed bankruptcies and settlements showed the decreasing trend in the period 2000 - 2004. However, **the last two years reported increases**. Their year-on-year pace got faster from 6.6% in 2005 to 8.9% in 2006 - 4 227 proposals.

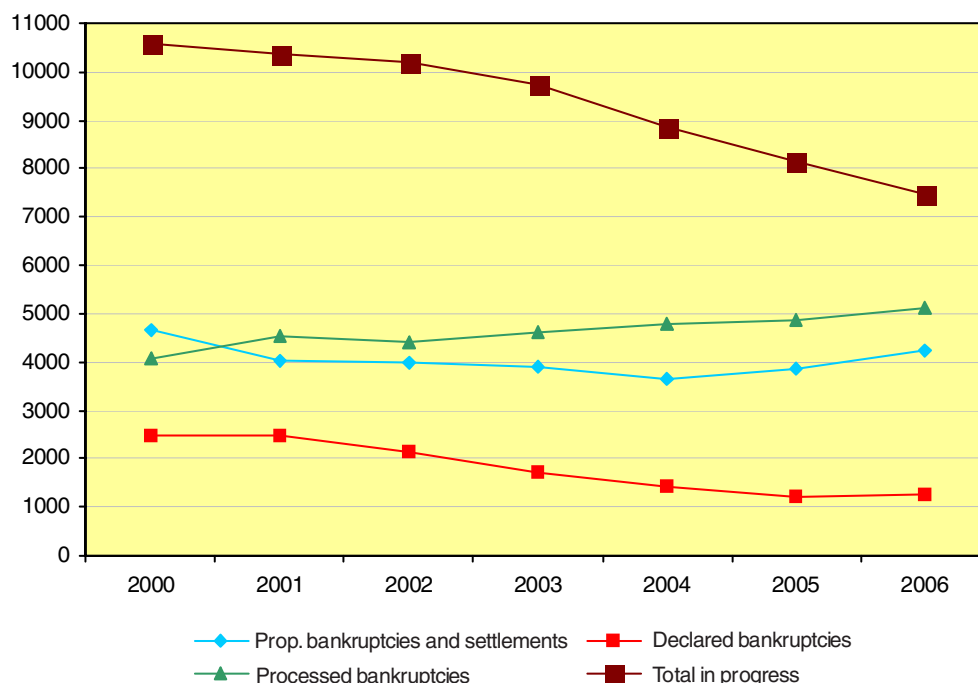
The number of declared bankruptcies slightly increased

The number of declared bankruptcies stopped declining. There could be some time delay probably reflecting in the increased number of proposed bankruptcies. There were 1 245 bankruptcies (thereof 7 settlements) declared in 2006, i.e. by 0.7% more year-on-year. The number of declared bankruptcies increased in all regions with the exception of the Regional and Municipal Courts in Praha and in Ústí nad Labem, where the numbers decreased. The number did not change in Plzeň.

The number of rejected proposals, because of the lack of assets, increased

The number of processed cases continued growing by 4.8% year-on-year to 5 106. These proceedings rejected 1 536 proposed bankruptcies because of the lack of assets. That was by one third more, when compared with 2005. This number thus prevailed over the number of declared bankruptcies.

Graph I.7.1 Development in bankruptcies and settlements since 2000



Source: Ministry of Justice, MIT graph

¹¹ Total revenue = the revenue from own production plus the revenue from goods.

The total number of proceedings continued decreasing from 8 135 at the end of 2005 to 7 456 in 2006, thereof 6 657 after the bankruptcy declaration. The number of bankruptcies after the bankruptcy declarations, which had been in progress for longer than 7 years, increased to 1 222 and their share was 18.4%. Bankruptcies processed within the period from one to three years made up 26.3% of the proceedings.

II. INDUSTRY

II.1 Production, employment and productivity

Industry belongs among economy parts, which **significantly participate in the creation of GDP** (about 32.5%). It is one of the decisive bearers of economic activities and growth, high export performance, scientific and technological progress, and of labour productivity. Its activities are getting more and more interconnected with activities having the character of services. These are especially progressive services (science, research and development, information and communication technologies, etc.), which present themselves in industry through new technologies and products and strengthen thus the competitiveness of the economy as a whole.

Industrial production had achieved the highest growth since the founding of the independent Czech Republic

In 2006, **the industrial production achieved the growth of 9.7%** (this had been the highest growth so far, which can be compared only with the year 2004, when it had been lower only by 0.1 p.p.). The dynamical growth was supported by **investments related to new manufacturing capacities started** especially in the automotive, electronic and computer industries and supported by increased demands. There were also industries developing, which are connected to the former ones in the form of subcontracts (the electric equipment of cars, the plastic and rubber industry). The increased demands reflected in a positive way also in the growth of traditional mechanical engineering (especially for the energy industry) and by the recovery in metallurgy. On the other hand, the clothes' industry continued declining because of imports of cheap consumer goods from Asia. It has become one of the weakest parts in industry.

The main **bearers of growth were foreign owned enterprises**, the share of which in the total industrial revenue reached 60%. Their share in exports of goods from the Czech Republic exceeded 76%. The current Czech manufacturing industry (similarly as the industry in EU countries) has been still concentrated in industries with medium low technological intensity and with a low qualified workforce. The share of the high-tech production in exports reached 13.4% and in value added only 7.5%.

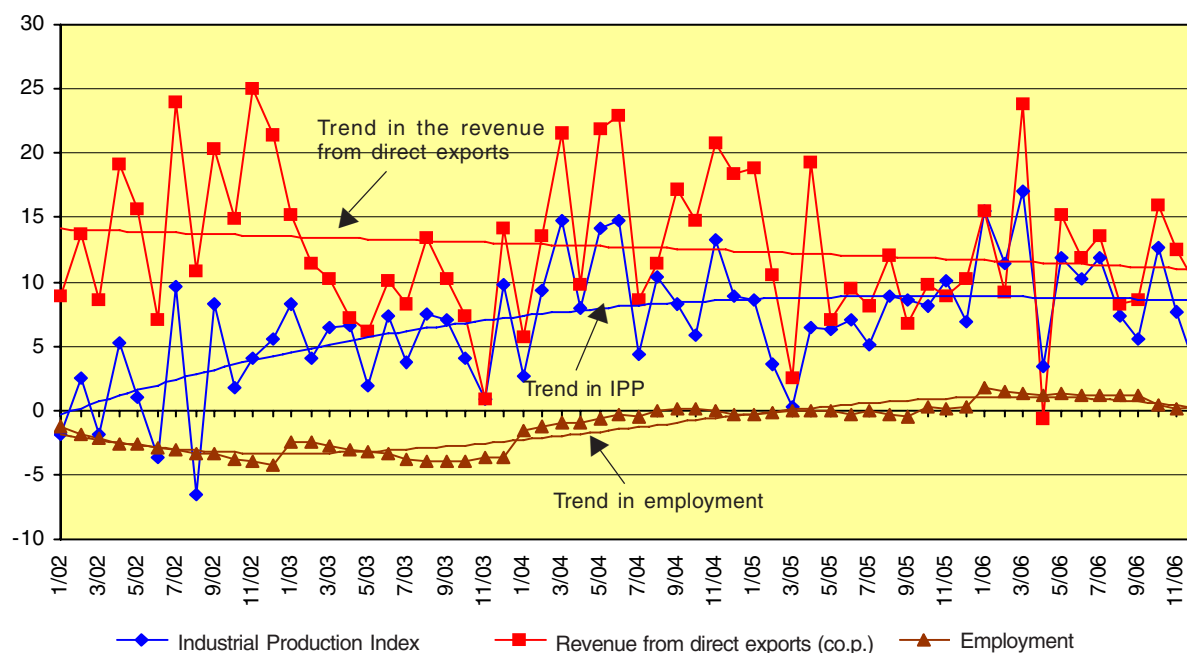
The continued structural changes in the manufacturing industry progressively resulted in the growth within industries manufacturing technologically more advanced products of higher value added. However, this higher value added have not been always realised in the Czech Republic.

Revenues (in constant prices) increased by 10.3% and got ahead of the growth in production. This has proved the increasing competitiveness. The production found its utilisation in both domestic and foreign markets. Revenues from direct exports increased by 11.6% (they participated in the total industrial revenues with 54.2%).

Support of research and development has been an important factor in the increasing competitiveness. The accessible data from 2005 indicate that the total expenditures used for research and development in the Czech Republic tripled (when compared with 1995)

Correlation coefficient between the production and

Graph II.1.1 Development in industrial production, revenue from direct exports, and employment (year-on-year change in %)



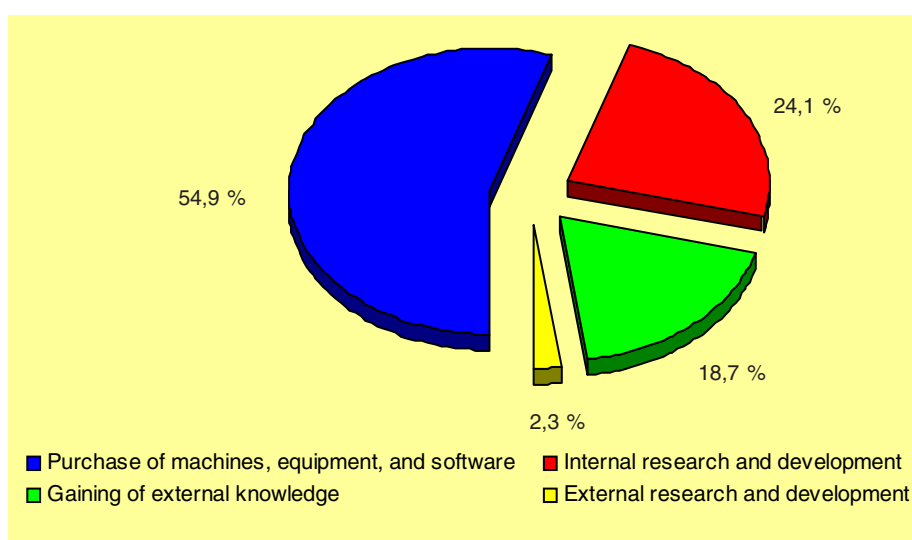
Source: CZSO, MIT estimate and graph

expenditures used for research and development was high

and reached thus the share of 1.42% of GDP, thereof the enterprising sector 0.77%. The relation between the industrial production index and expenditures for research and development within the enterprising sector implies their mutual connection. Calculations have proved that results of the scientific and technological research get implemented, on average, after four years, when the value of the correlation coefficient achieves 0.82.

Support of the innovative environment and research and development makes an important factor for increasing of the product competitiveness. According to 2005 data, the total costs of innovations in the manufacturing industry grew by 16.6%, while the highest growth, among individual industries, took place in the manufacture of machines and equipment (by 34.9% and the share of 10.8% in the total costs), in the manufacture of transport

Graph II.1.2 Structure of innovation costs



Source: CZSO, MIT graph

equipment (by 33.7% and the share of 20.4%), in the manufacture of furniture, in processing of secondary materials, and in other manufacturing industry (with the small share of 2.6%), where the costs more than doubled. The structure of innovation costs is shown in Graph II.1.2.

Enterprises utilised for the funding of innovations also the support from public resources, where the dominant provider was the government. This aid was used by 1 146 enterprises. The European Union also played an important role and the support from it was utilised by 474 enterprises. The existence of the 5th and 6th Framework Programmes by EU was taken advantage of by 324 enterprises. Only 275 enterprises received the support from local and regional authorities.

Innovation activities initiated a number of positive effects. Companies reported in a survey the improved quality of products and services as the most important factor (80% of enterprises), the extension of products and services and the improved manufacturing flexibility (70%), the smaller consumption of materials and energies per product (40%), and the fulfilment of regulation provisions and norms (25%).

Table II.1.1 Development in the industrial production by use (year-on-year change in %)

	Weights of 2000 Year	Rok						2006			
		2001	2002	2003	2004	2005	2006	1st Q	2nd Q	3rd Q	4th Q
Total industry	100.0	6.7	1.9	5.5	9.6	6.7	9.7	14.8	8.6	8.0	7.8
thereof:											
Intermediate consumption	40.7	2.6	3.1	8.4	11.6	1.5	7.3	9.5	7.6	6.9	5.7
Investments	23.6	14.3	2.1	6.6	15.9	17.0	18.3	30.8	14.7	14.3	15.1
Long-term consumption	3.1	21.1	-8.2	-6.8	21.6	22.4	27.6	37.0	30.7	18.3	26.3
Short-term consumption	17.5	2.0	1.6	-1.2	-0.5	1.8	0.3	3.5	0.2	-2.4	-0.1
Production of energy	15.1	7.8	1.0	5.8	1.4	3.1	2.0	2.9	0.6	5.1	-0.4

Source: CZSO

The structure of production, according to the production purpose, reported the highest growth in **the production for long-term consumption** (by 27.6%). The growth in consumer demands, driven by higher incomes and credits contributed to that. High growth was reported also by **the production for investments** (by 18.3%), thanks to increased investment activities. Domestic enterprises utilised, thanks to the favourable development, funds determined for development programmes. Many foreign companies invested in the country, thanks to investment incentives and other comparative advantages of the Czech economy. **The production of intermediate products increased** by 7.3% in connection with the continuing co-operation and the utilisation of cheap work costs by multinational companies. Among other main industrial groupings, the production of energy also slightly increased (by 2%), while the manufacture of goods for the short-term consumption grew only by 0.3%.

The low growth in production of electricity in steam power stations reflected in the development of demands for energy materials, which increased only by 0.4%. In contrast, the favourable development in construction influenced the extraction of other minerals and it increased by 6.2%. In **the material section**, production increased by 2.1%, revenues (in constant prices) by 10.3%, the revenues from direct exports (in constant prices) by 102.5%*/ (they participated with 20.3% in the revenue from sales of own products and services within the section), thereof in the extraction of energy materials by 153.5% and in the extraction of other minerals by 15.4%. In natural units, the extraction of brown coal slightly increased by 0.6%, thereof the energy brown coal by 0.2% (the

The production growth was mild in the material section...

Table II.1.2 Industrial production and revenues in 2006
(organisations with 20 or more employees, the year-on-year change in %)

	1st Q	2nd Q	3rd Q	Oct.	Nov.	Dec.	4th Q	Year 2006
Industrial Production Index								
Total industry	14.8	8.6	8.0	12.6	7.6	3.0	7.8	9.7
C Extraction of minerals	4.0	-7.1	7.6	9.8	2.2	1.8	4.6	2.1
D Manufacturing industry	16.1	9.7	8.3	13.5	8.2	3.6	8.6	10.5
E Production and distribution of electricity, gas, water	4.8	-0.7	4.4	1.3	1.2	-3.2	-0.4	2.0
Revenue from the sale of own products and services (in co.p.)								
Total industry	15.6	8.9	8.0	13.8	8.8	4.9	9.2	10.3
C Extraction of minerals	9.1	3.8	15.4	13.4	14.5	10.3	12.8	10.4
D Manufacturing industry	16.8	9.5	8.3	14.3	9.0	5.3	9.7	10.9
E Production and distribution of electricity, gas, water	4.5	-0.6	-0.9	5.5	3.9	-1.4	2.3	1.7
Revenue from direct exports (in co.p.)								
Total industry	15.5	8.4	9.8	15.9	12.5	9.6	12.8	11.6
C Extraction of minerals	19.3	59.1 ^{*)}	169.6	161.8	152.4	139.7	151.2	102.5
D Manufacturing industry	15.4	8.1	9.0	15.4	11.0	9.0	12.3	11.2
E Production and distribution of electricity, gas, water	29.2	12.4	11.6	-6.8	6.5	8.4	2.7	12.4
Share of the revenue from direct exports (in co.p.) in the total section revenue (in %)								
Total industry	54.6	54.5	54.2	54.5	54.8	51.5	53.8	54.2
C Extraction of minerals	12.1	17.1	26.8	22.4	24.0	24.4	23.6	20.3
D Manufacturing industry	59.7	57.9	57.3	58.0	58.7	56.2	57.8	58.2
E Production and distribution of electricity, gas, water	3.5	5.6	7.3	4.3	4.9	4.5	4.7	5.0

Source: CZSO

^{*)} The change in the organisation of trade by an important producer, which had the impact on the change from indirect to direct exports in June 2006

decisive share of 92.4%), the mining of black coal was higher by 1.1%. The latest item included the mining of coal suitable for coking, which increased by 8.5% (the share of 57.8%), while the mining of black energy coal decreased by 7.5%.

In the case of **other minerals**, the production of gravel and sand increased, thanks to **the favourable development in construction**, by 19.3% (the share of 70.8%) as well as the extraction and processing of aggregate for construction by 24.3% (the share of 5.4%). The extraction and processing of other not classified minerals more than doubled (graphite, mica, quartz and quartzite, asbestos, soapstone, feldspar, etc.) but their share was only small (2.7%).

*The progressive change in the structure of industrial production reflected in lower energy-intensity of the production and in the changed structure of consumption of energy, when **the consumption of the high-grade energy kinds significantly increased, while the growth in consumption of solid fuels was only very mild.** When compared with 2000, the consumption of solid fuels increased by 2.5% (according to the accessible data from 2005), while the consumption of liquid fuels grew by 19.9% electric energy by 18.9%, and gaseous fuels by 15.3%. In 2005, industry participated in the end consumption of solid fuels with 57.9% (the decrease by 3.1 p.p., when compared with 2000), liquid fuels with 16% (the decrease by 1.4 p.p.), gaseous fuels with 42.8% (the increase by 0.1 p.p.), and electric energy with 42.6% (the increase by 2.4 p.p.).*

... and it was identical in the energy section

In the energy section, the production grew by 2%, revenues (in constant prices) by 1.7%, and revenues from direct exports (in constant prices) by 12.4% (they participate in the revenue from sales of own products and services within the section with 5%). **The favourable development was supported mainly by economic growth.** The net production of electric power increased in natural units by 2.3%, thereof in nuclear power stations by 5.4% (the share of 31.4%, the

increase by 0.9 p.p.), in water power station by 10.5% (the share of 4.3% and the increase by 0.3 p.p.), and in steam power stations by 0.3% (the share of 61.3%, the decrease by 0.8 p.p.). High growth was reported by the category of others (wind, solar, geothermal, and other alternative resources) by 124.9% (but with their very small share of 0.2%). The favourable development in the economy reflected in **the growth of net consumption of electric power** by 2.8% supported mainly by big customers (the share of 58.9%) ensuring the growth by 3.5%. Small customers increased their consumption by 2.2%. Within the structure of retail sales, the household consumption grew by 2.2% (the share of 65.1%) because of colder beginning of the year, when the consumption increased by one fifth. The retail sales to businesses increased by 2.1%. The total exports of electric power, including transit, was lower by 3.5% (30.9% of the net production) and the total imports, including transit, lowered by 7.2% (14.7% of the net production).

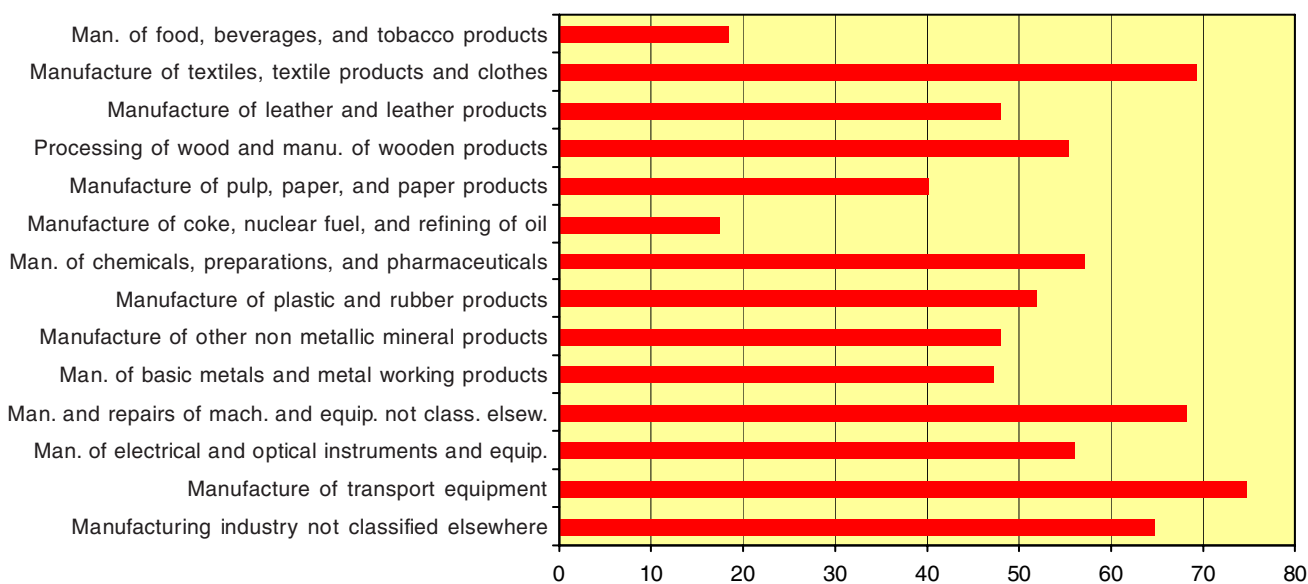
When comparing individual segments in the national economy, the share of consumption of electric power by industry in the total end consumption of electric power equalled 42.6%, the share of households was 27.4%, transport 4.1%, agriculture and forestry 2.1%, construction 0.8%, and other industries' total was 23%.

Increases within **the manufacturing industry** were reported especially by **industries having high shares of foreign investments**, industries producing on order for renowned world companies, and industries producing mainly for exports. The industrial production in this section increased by 10.5%, revenues (in constant prices) by 10.9%, and the revenues from direct exports (in constant prices) by 11.2% (they participated in the revenue from sales of own products and services within the section with 58.2%). From the achieved exports point of view, the most important were the products manufactured within the manufacture of electric and optical instruments (CZK 497.6 billion) and the transport engineering (CZK 412.4 billion).

The manufacturing industry was influenced by high performance of foreign owned enterprises

The more detailed review of the shares of the revenue from direct exports in the total revenue and in the section revenues, branches, and parts are presented in Table II Industry in the Annex Part.

Graph II.1.3 Share of the revenue from direct exports in the total revenues of individual industries in 2006 (in % of co.p.)



Source: CZSO, MIT estimates

The favourable development in **the manufacture of transport equipment** (the most important industry within the Czech industry with more than one fifth share

The automotive industry was

influenced by increased production in Škoda Auto and TPCA Kolín

in total revenue) was influenced by **increased demands for cars by Škoda Auto** (more than a half million vehicles had been sold for the first time in history last year) and **started full capacity production in the car making plant of TPCA in Kolín**. Almost the entire production of his plant has been determined for exports. The production by the industry increased year-on-year by 20.6%, revenues (in constant prices) by 20.5%, and the revenues from direct exports (in constant prices) by 14.3% (they participated in the revenues from sales and own products and services within the industry with 74.8% and in the total industrial revenue with 15.7%).

The data by the Association of Automotive Industry (SAP) show that the biggest producer was Škoda Auto with the increase in production of 12.5% (to 556 443 vehicles). Their exports increased by 13.7% and domestic sales by 0.4%. Production of buses also significantly increased by 34.4% (2 948 buses). This relates mostly to the bus maker Karosa Vysoké Mýto. In contrast, the production of motorcycles and scooters decreased by 37.5% and the production of trucks by 3.5%.

Another impulse for the development of the automotive industry will be the new factory construction by the car maker Hyundai in Nošovice, which should start in the first half of 2007. After putting that plant into operations (the full operations should start in 2009), the Czech Republic will become one of the car making powers in the world with more than a million manufactured vehicles a year.

Demands for the produce by the mechanical engineering industry were growing

The growing domestic and especially foreign demands, together with the introduction of new manufacturing capacities into operations in industrial zones, with the participation of foreign capital, reflected in **the manufacture and repairs of machines and equipment**, where the production increased by 18%, revenues (in constant prices) by 18.1%, and the revenues from direct exports (in constant prices) by 22.6% (in the revenue from sales of own products and services within the industry, they participated with 68.3%). The competitiveness of the industry was facilitated by the continuous upgrading of the technical standard of final products, by progressive technologies, quality monitoring, flexible reactions to customers' requirements, and by the accessible and fast service.

Big increases were reported by the manufacture of cooling, ventilation, and conditioning facilities (by 36.1% and the share of 15.4%), the manufacture of electric household appliances (by 37.1% and the share of 4.2%), the manufacture of valves and fittings (by 59.2% and the share of 3.9%), and the manufacture of construction and mining machines (by 22% and the share of 6.9%). The growing demands reflected in the increased total number of concluded orders confirming the continuation of the favourable development within the industry.

Electro-engineering industry was influenced by the manufacture of computers and greater demands on the domestic market

The entry of foreign investors and starting of new manufacturing capacities supported the dynamic growth in **the manufacture of electrical and optical instruments** (the second most important industry). **The manufacture of computers on order** for renowned companies **significantly grew**, while all the production was exported to European distribution centres of multinational companies. Demands by residents and demands related to subcontracts within the automotive industry and the mechanical engineering industry also increased. The production increased by 16.3%, revenues (in constant prices) by 16.4%, the revenues from direct exports (in constant prices) by 9.9% (they participated in the revenue from sales of own products and services with 56%).

Within individual branches, big increases were reported by the manufacture of radio and television sets (by 57.3% and the share of 12.9%) and the manufacture of office equipment and computers (by 19.1% and share of 29.3%). Exports of computers drove the growth dynamics in the exports of industrial production and they reached the growth of 41%. The exports of cables grew by 23%, of electronics by 19%, and the exports of colour television sets increased year-on-year by 50%. Growth in the exports of goods by the manufacturing industry as a whole was 14.6%. The exports by the electro-engineering industry were

significantly influenced by the increased purchase power of the population in countries of the former EU-15.

The development in **the manufacture of plastic and rubber products** was influenced by the entry of foreign capital to enterprises manufacturing plastic parts within subcontracts for the dynamically developing car making and electro-engineering industries, but also for other branches within the manufacturing industry. The production and revenues (in constant prices) increased identically by 14.6%, revenues from direct exports (in constant prices) by 13.6% (they participated in the revenue from sales of own products and services within the industry with 51.9%).

The manufacture of plastic and rubber products was influenced by the dynamic growth in the automotive and electro-engineering industries

High increases in production were reported especially by the manufacture of plastics (by 54.1% and the share of 5.6%) and the manufacture of tires and air tubes (by 22.8% and the share of 32.3%). The manufacture of plastic products determined for construction also increased in connection with the favourable development in this industry (by 16.9% and the share of 10%). The manufacture of other plastic goods (plastic parts and accessories for transport vehicles) increased by 15.7% and the share of 24.3%. The extensive utilisation of plastics and rubber suggest further dynamical development.

The wood-working and the manufacture of wooden products belong among the pro export oriented industries. Exports have been increasing especially within the assortment of low level processed products especially in Germany, Austria, and Italy. The production and revenues (in constant prices) increased identically by 13.3% and revenues from direct exports (in constant prices) by 10.6% (they participated in the revenue from sales of own products and services within the industry with 55.5%).

Growing demands for the production by the wood industry

Within individual product groups, high increases were reported by the manufacture of cut wood and of impregnated wood (by 16.8% and the share of 33.8%) in connection with the development in construction. The manufacture of constructional cabinet making and carpentry also increased (by 14% and the share of 30.8%). However, the most pronounced increases took place in the manufacture of other wooden products (by 46.3% and the share of 9.9%). In order to ensure the increased competitiveness, the existing structure in the wood processing must be adjusted in such a way that the share of the products with a higher value added increases preferably.

Growing foreign demands and the favourable development in construction and in engineering, which have been the main customers, reflected in the recovery of **the manufacture of basic metals, metallurgical and metal working products**. The production grew by 8.8%, revenues (in constant prices) by 8.6% and revenues from direct exports (in constant prices) by 13.2% (they participated in the revenue from sales of own products and services within the industry with 47.2%).

The continuing recovery in the metallurgical industry

Within individual branches, the manufacture of steel construction and metal working products grew by 14% (the share of 46.7%) as well as the manufacture of basic metals and metallurgical products (by 11% and share of 53.3%). In the structure of production, the manufacture of basic metals and metallurgical products increased by 9.5% (the share of 54.7%) and the manufacture of steel construction and metal working products by 7.7% (the share of 45.3%).

In **the manufacturing industry not elsewhere classified**, the production increased by 7.6%, revenues (in constant prices) by 5.1% and revenues from direct exports (in constant prices) by 1.9% (they participated in the revenue from sales of own products and services within the industry with 64.8%).

The recycling of secondary materials increased by almost one half

Within this industry, the recycling of secondary materials (NACE 37) significantly grew by 48% (the share of 12%), while the manufacture of furniture and the manufacturing industry not elsewhere classified (NACE 36) increased by only 1.2% (the share of 88%), when the manufacture of toys and games grew dynamically by 20.4% (the share of 11.9%), while the decisive manufacture of furniture (the share of 71.3%) grew by only 0.4%.

The long-term falling in **the manufacture of leather and leather products**, caused

High growth in the manufacture of shoes

by high imports of cheap shoes from China, presents only a very low base extended by the continuous growth, which has started in the 2nd quarter 2005. Domestic manufacturers reacted to the unfavourable situation by specialising on products with a higher share of value added, with specific usable features and with better parameters. In 2006, the production increased by 6.2%, revenues (in constant prices) by 5.6%, revenues from direct exports (in constant prices) by 7.3% (they participated in the revenue from sales of own products and services within the industry with 48%).

The manufacture of shoes developed in a dynamical way with the year-on-year growth by 15.4% (the share of 57.9%).

The three following industries reported slight growth: **The manufacture of coke and refinery processing of crude oil** by 2.5%, **the manufacture of other non metallic mineral products** by 2.2% (the manufacture of flat glass and the glass for the automotive industry grew within the structure, while the manufacture of ordinary glass, household glass and ceramics was declining thanks to the increasing competition coming from China), and **the manufacture of food and beverages** by 0.5%.

Production decreased only in three industries

Production decreased in three industries within the manufacturing industry. It happened in **the manufacture of textiles, textile products and clothes** (by 1.6%), in **the manufacture of chemicals, preparations and medicine** (by 1%), and in **the manufacture of pulp, paper and paper products** (by 0.1%).

The manufacture of clothes reported a significant decrease by 20.1% (the share of 17.3%) caused by the higher competition of Asian producers (especially from China and India) after the finalisation of liberation of the trade in textile products and clothes and because of increased imports to the EU market. **The textile industry reported a slight increase** in its production by 2.3% (the share of 82.7%) because the production of mostly technically oriented products - the manufacture of other textile products, increased by 5.3% (the share in the production by the textile industry equalled 28.4%). The development in individual branches of the textile and cloth industry reflected in newly concluded orders, which declined in number within the cloth industry by 10% (thereof from abroad by 10.3%), while the textile industry reported the increased number of total orders by 4.6% (thereof from abroad by 7.5%).

The development in **the manufacture of chemicals, preparations, and medicine** was influenced by the rising prices of crude oil and energies (at the year beginning). In the second half-year, it was influenced by the continuing restructuring in UNIPETROL, a.s. holding and the planned unavailability periods in its subsidiaries CHEMOPETROL, a.s. and PARAMO, a.s. In individual product groups, the manufacture of colourings and pigments significantly decreased by 51.2% as well as the manufacture of chemical fibres (by 32.3%).

A slight decrease (by 0.1%) was reported by **the manufacture of pulp, paper and paper products, publishing and printing**. Within the manufacture of pulp, cardboard and paper, the production increased by 1.5% (the share of 58.2%) and had exceeded the limit of one million tons for the first time in history, while it got close to the industrially advanced countries with the consumption of 140 Kg per person.

Publishing, printing and copying of recorded media reported the decrease by 3.3% (the share of 41.8%). This decreasing production and sales of recorded sound and image media have become a permanent trend caused by downloading of music and movies from the Internet and by pirate copying followed by the consequent illegal sales.

Newly concluded orders were growing

Growth in the industrial production has been directly connected with the higher number of newly concluded orders. Both indicators show the growing sales

Table II.1.3 Development in industrial production by economic activities
(organisations with 20 or more employees, the year-on-year change in %)

	2003	2004	2005	2006				
				1st Q	2nd Q	3rd Q	4th Q	Year
Total industry	5.5	9.6	6.7	14.8	8.6	8.0	7.8	9.7
Extraction of minerals	0.3	-0.6	0.5	4.0	-7.1	7.6	4.6	2.1
thereof:								
Extraction of energy materials	-0.6	-2.2	-0.2	6.2	-9.8	5.8	0.4	0.4
Extraction of other minerals	2.9	3.8	2.4	-3.3	-0.9	11.3	15.7	6.2
Production and distribution of electricity, gas, and water	8.8	0.9	-1.2	4.8	-0.7	4.4	-0.4	2.0
Manufacturing industry	5.4	10.7	7.5	16.1	9.7	8.3	8.6	10.5
thereof:								
Man. of food, beverages, and tobacco products	0.1	-1.4	-2.8	4.0	1.6	-3.2	0.1	0.5
Man. of textiles, textile products and clothes	0.1	-0.2	-2.6	-3.2	-0.8	-2.0	-1.6	-1.6
Manufacture of leather and leather products	-17.4	-0.5	3.3	14.5	8.6	-0.7	2.1	6.2
Proc. of wood and manufacture of wooden prod.	3.6	6.6	6.2	20.8	11.0	7.0	16.1	13.3
Manufacture of pulp, paper, and paper products	-1.0	7.3	6.0	3.1	-0.6	-1.7	-1.0	-0.1
Man. of coke, nuclear fuel, and refining of oil	3.6	4.0	12.6	-2.3	6.7	5.8	-0.9	2.5
Man. of chemicals, preparations, and pharmac.	0.7	11.4	5.7	5.4	-3.0	-1.8	-4.8	-1.0
Manufacture of plastic and rubber products	15.2	11.0	12.6	15.4	10.3	14.5	19.0	14.6
Man. of other non metallic mineral products	5.5	7.8	3.0	5.3	0.9	-0.9	4.3	2.2
Man. of basic metals and metal working prod.	9.9	9.3	-0.9	10.7	13.3	9.5	1.8	8.8
Manufacture and repairs of machines and equipment not classified elsewhere	5.1	14.3	14.1	20.9	13.4	15.2	22.7	18.0
Man. of electrical and optical instrum. and equip.	9.8	29.2	5.0	23.9	14.5	14.2	14.5	16.3
Manufacture of transport equipment	6.4	13.2	23.0	36.3	17.5	15.8	14.0	20.6
Manufacturing industry not classified elsewhere	-1.7	7.9	8.6	12.5	6.9	3.6	7.4	7.6

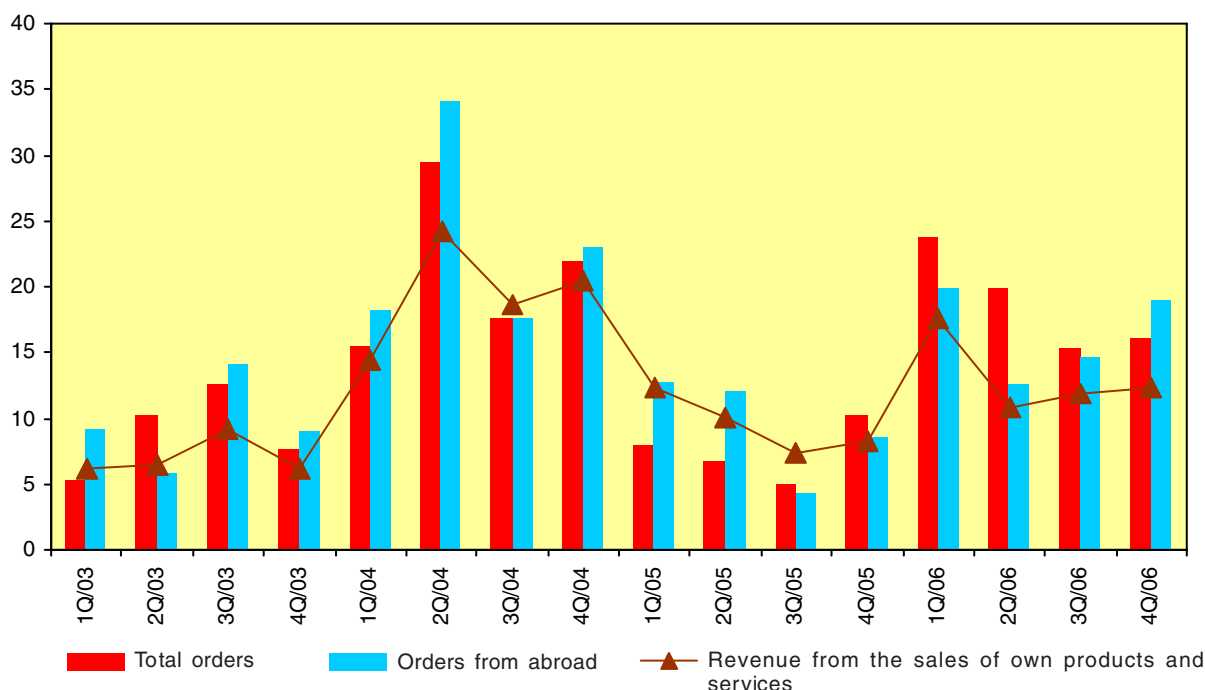
Source: CZSO

opportunities for the manufacturing industry. **The total number of newly concluded orders** (monitored within selected NACEs, having the share of 60.8% in the total revenue) grew by 18.8% (the increase by 11.3 p.p.), thereof **the foreign orders** by 16.5% (their share in the total number of orders equalled 63.3%). Higher dynamics were reported also by **the domestic orders** growing by 22.9% (the share of 36.7%). Revenues in selected branches (in current prices) increased by 12.7% (from 8.9%). The above average growth in the number of new orders has proved that the Czech exporters could manage the strengthening currency (the crown).

in their number sharply and the faster growth was reported by domestic orders

Within **the newly concluded foreign orders**, high growth (of more than 20%) was reported by the following four industries: the manufacture of healthcare, precise and optical instruments (by 29.8% participating in the total number of orders with 12.1%), the manufacture and repairs of machines and equipment (by 29.6% and the share of 13.6%), the manufacture of basic metals and metallurgical products (by 22.7% and the share of 8%), and the manufacture of motor vehicles (by 20.7% and share of 32.3%). In contrast, a decline in the number of orders was reported also in four industries. It was the most pronounced in the cases of the manufacture of office equipment and computers (by 17.4% and the share of 4.4%) and the manufacture of clothes and processing and colouring of fur (by 10.3% and the share of 0.5%).

Graph II.1.4 Development in new orders and the total revenue within selected segments
(it has been followed only in NACEs 17, 18, 21, 24, and 27 - 35, the year-on-year change in %, cu.p.)



In the case of **domestic orders**, there was significant growth in the manufacture of office equipment and computers (by 77.2% and the share of 8.9%), the manufacture of motor vehicles (by 43.5% and the share of 22.4%), the manufacture and repairs of machines and equipment (by 38.9% and the share of 12.4%), and the manufacture of radio, television and communication equipment (by 25.4% and the share of 1.5%). A decline in the number of domestic orders was reported by three industries. It was the highest in the manufacture of healthcare, precise, optical, and time measuring instruments (by 24.1% and the share of 1.4%).

The favourable development in the number of newly concluded foreign and domestic orders has signalled high demands for industrial goods and that suggests the maintenance of the current trend of growth.

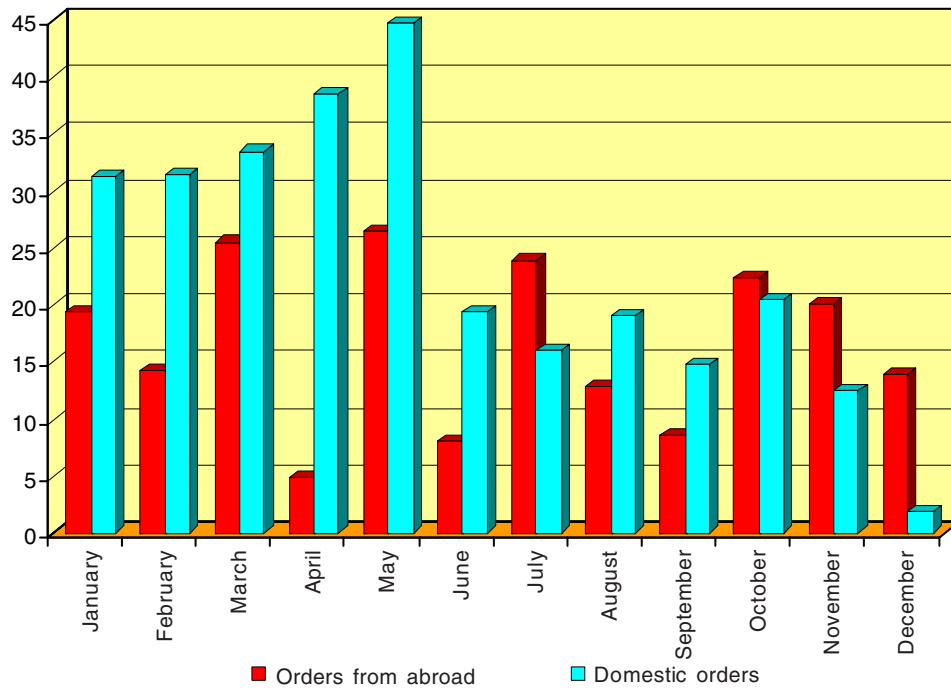
Within the revenue, only the share of industries offering a higher value added and advanced technologies grew

The dominant role in the total industrial revenue is played by the manufacturing industry, which further expanded in 2006 and reached the share of 92% (the year-on-year increase by 0.5 p.p.) to the detriment of the identical decreasing share of the energy section, down to 5.9%, and the stagnating share of the material section at 2.1%. **The inflow of foreign capital** to the manufacturing industry reflected in a positive way in structural changes. **The weight of technologically more advanced industries and industries offering higher levels of the value added increased.** Four industries increased their shares: the highest increase was reported by the manufacture of transport equipment (by 1.8 p.p. to 21%), higher growth was also reported by the manufacture of electrical and optical equipment (by 0.8 p.p. to 15.8%) and the manufacture and repairs of machines and equipment (by 0.5 p.p. to 8%). The shares decreased in eight sub sections, thereof the most pronounced decrease occurred in the manufacture of food and beverages (by 0.8 point to 8.1%) and in the manufacture of chemicals, preparations and medicine (by 0.6 point to 4.9%). The shares stagnated at the level of the previous year in two industries (see Table II.1.4).

Employment grew only in the

Increases in the industrial production and the growing number of new orders reflected also in **growth in the total employment** by 1% (organisations with 20 or

Graph II.1.5 Development in new foreign and domestic orders in 2006 (the year-on-year change in %, cu.p.)



Source: CZSO, MIT graph

Table II.1.4 Structure of the revenue from the sales of own products and services (organisations with 20 or more employees, shares in %, co.p.)

	2002	2003	2004	2005	2006	Differ. 2006- 2005
Total industry	100.0	100.0	100.0	100.0	100.0	
Extraction of minerals	2.8	2.7	2.4	2.1	2.1	0.0
thereof:						
Extraction of energy materials	2.3	2.2	1.9	1.7	1.7	0.0
Extraction of other minerals	0.5	0.5	0.4	0.4	0.4	0.0
Prod. and distrib. of electricity, gas, and water	7.6	7.6	6.5	6.4	5.9	-0.5
Manufacturing industry	89.6	89.7	91.2	91.5	92.0	0.5
thereof:						
Man. of food, beverages, and tobacco products	11.4	10.8	9.8	8.8	8.1	-0.8
Man. of textiles, textile products and clothes	3.3	3.0	2.6	2.3	2.1	-0.3
Man. of leather and leather products	0.2	0.2	0.2	0.2	0.2	0.0
Proc. of wood and manufacture of wooden prod.	1.8	1.7	1.8	1.7	1.8	0.0
Man. of pulp, paper, and paper products	4.3	4.1	4.0	3.9	3.5	-0.4
Man. of coke, nuclear fuel, and refining of oil	3.2	3.1	2.5	2.3	2.0	-0.3
Man. of chemicals, preparations, and pharmac.	5.6	5.4	5.5	5.4	4.9	-0.6
Man. of plastic and rubber products	5.4	5.7	6.1	6.3	6.6	0.2
Man. of other non metallic mineral products	5.0	4.9	4.8	4.6	4.2	-0.3
Man. of basic metals and metal working prod.	11.8	12.2	12.1	11.3	11.1	-0.2
Man. and repairs of mach. and equip. not classified elsewhere	6.4	6.6	7.1	7.5	8.0	0.5
Man. of electrical and optical instrum. and equip.	12.3	12.7	14.8	14.9	15.7	0.8
Man. of transport equipment	15.8	16.3	16.9	19.3	21.0	1.8
Man. industry not classified elsewhere	3.1	2.9	2.9	2.9	2.8	-0.1

Source: CZSO, MIT graph

Note: Any differences result from the computer rounding

manufacturing industry

more employees). This growth was mainly supported by the employment in the manufacturing industry (by 1.5%), while employment declined in the energy and material sections (by 5.2% and 2.9%).

Within the manufacturing industry, high growth was reported by successful industries. Among them, the manufacture of plastic and rubber products reported the growth by 8% (the important subcontractor for the automotive and electro-engineering industries) and the manufacture of electrical and optical instruments by 5.2%. Declined employment took place in seven industries and the especially high decline took place in the manufacture of textiles, textile products and clothes by 9.4% and in the manufacture of leather and leather products by 4.6%. These industries reported the lowest levels of nominal wages (about a third lower than the average achieved in industry).

In 2006, there were 33 883 agency employees employed in industrial organisations (not including employees of job agencies hired for respondents' works, for the main industrial activity). This was the year-on-year increase by 15.5%. When the mentioned employees were included, the total employment would increase by 0.4 p.p. to 1.4%. Within individual industries, the agency employees were represented mostly in the two decisive industries: the manufacture of transport equipment (8 884 employees) and in the manufacture of electrical and optical equipment (8 243 employees). That reflects in the estimate of the labour productivity based on revenues with lower growth by about 0.4 p.p., down to 8.8%, without any more pronounced impact on the achieved prevalence ahead of the growth in wages. As from 2007, the agency employees will be included in the total number of employees.

Higher growth in the labour productivity...

The dynamic growth in the industrial production favourably reflected in high increases of revenues and the higher total employment and caused **the increased labour productivity** (by 9.2%), thereof in the material section by 13.7%, in the manufacturing industry by 9.3%, and in the energy section by 7.3%. Within the manufacturing industry, significant growth was achieved in the manufacture of transport equipment (by 15.5%) and in the manufacture and repairs of machines and equipment (by 15.2%). In contrast, slight decreases in the labour productivity took place in the manufacture of pulp and paper products (by 1.6%) and in the manufacture of coke and refinery processing of oil (by 0.3%).

There is a close relation, expressed by the correlation coefficient of 0.91, between the industrial production index and the labour productivity.

... when compared with growth in wages...

The favourable growth in labour productivity allowed businesses increases in **the average nominal wages** by 6%. Within individual sections, increases were achieved in the energy section (by 8.1%), in the material section (by 7.6%), and in the manufacturing industry (by 6%), where it was the highest in the manufacture of leather and leather products (by 7.8%), but this had been the industry with the lowest wage level reaching only 64% of the average wage in industry. The lowest growth took place in the manufacture of basic metals, metallurgical and metal working products (by 3.7%).

The real wage (recalculated with the consumer price index) **increased by 3.4%**, thereof in the energy section by 5.5%, in the material section by 5%, and in the manufacturing industry by 3.4%. No industry reported a decrease.

Growth in labour productivity (9.2%) got ahead of the real wage recalculated with the industrial producers' price index (4.3%) in the total industry by 4.9 p.p., thereof in the energy section by 6.7 p.p., in the material section by 6.1 p.p., and in the manufacturing industry by 4 p.p. Within the manufacturing industry, the fastest growth in the real wage, compared with the growth in labour productivity, was only in five industries (the manufacture of pulp and paper products, the manufacture of food and beverages, the manufacture of other non metallic mineral products, the manufacture of basic metals, metallurgical and metal working products, and in the manufacture of coke and refining of crude oil).

... and reflected in

High growth in the labour productivity ahead of the growth in nominal wages,

Table II.1.5 Selected indicators of industrial organisations with 20 or more employees in 2006 (the year-on-year change in %, CZK)

Indicator	Industrial production (IPP)	Revenues from own prod. and services in co.p.	Revenues from direct exports in co.p.	Registered number of employees	Labour productivity based on revenue	Average nominal wage	Wage recalculated with the Producers' Price Index	Unit labour costs		Average wage in CZK
								Nominal	Real	
Extraction of minerals	2.1	10.4	102.5	-2.9	13.7	7.6	7.6	-5.4	-5.4	24 208
thereof:										
Extraction of energy materials	0.4	9.2	153.5 ^{*)}	-3.7	13.4	7.6	8.4	-5.1	-4.4	24 540
Extraction of other minerals	6.2	14.8	15.4	2.4	12.1	8.8	6.6	-2.9	-4.9	22 041
Prod. and distrib. or electricity, gas, and water	2.0	1.7	12.4	-5.2	7.3	8.1	0.6	0.7	-6.3	25 929
Manufacturing industry	10.5	10.9	11.2	1.5	9.3	6.0	5.3	-3.0	-3.7	18 881
thereof:										
Man. of food, beverages, and tobacco prod.	0.5	0.9	7.2	-3.4	4.4	6.3	7.8	1.8	3.3	17 306
Man. of textiles, textile products and clothes	-1.6	-2.6	-1.4	-9.4	7.5	5.4	5.2	-2.0	-2.1	12 759
Man. of leather and leather products	6.2	5.6	7.3	-4.6	10.7	7.8	7.4	-2.6	-3.0	12 389
Proc. of wood and man. of wooden prod.	13.3	13.3	10.6	1.1	12.0	6.6	4.2	-4.8	-7.0	15 690
Man. of pulp, paper, and paper products	-0.1	-0.6	0.0	1.0	-1.6	3.8	3.4	5.5	5.1	21 024
Man. of coke, nuclear fuel, and refining of oil	2.5	-3.6	6.1	-3.2	-0.3	7.5	-0.2	7.8	0.1	28 105
Man. of chemicals, preparations, pharmac.	-1.0	-1.2	-1.1	-1.8	0.6	4.8	0.5	4.2	-0.1	22 534
Man. of plastic and rubber products	14.6	14.6	13.6	8.0	6.1	4.7	4.4	-1.3	-1.6	18 329
Man. of other non metallic mineral prod.	2.2	2.1	7.7	-2.6	4.8	7.2	5.7	2.3	0.9	20 007
Man. of basic metals and metal working prod.	8.8	8.6	13.2	4.6	3.9	3.7	4.4	-0.2	0.5	19 110
Man. and repairs of machines and equipment	1									
not classified elsewhere	8.0	18.1	22.6	2.6	15.2	6.5	4.7	-7.6	-9.1	19 848
Man. of electrical and optical instr. and equip.	16.3	16.4	9.9	5.2	10.7	6.5	4.3	-3.8	-5.8	18 724
Man. of transport equipment	20.6	20.5	14.3	4.3	15.5	5.8	7.2	-8.4	-7.2	22 365
Man. industry not classified elsewhere	7.6	5.1	1.9	-2.0	7.3	6.4	4.5	-0.8	-2.6	15 368
Total industry	9.7	10.3	11.6	1.0	9.2	6.0	4.3	-2.9	-4.5	19 400

Source: CZSO, MIT graph

Note: Labour productivity calculated as the Revenue from the sales of own products and services, in constant prices, to Average Registered Number of Employees Index ratio.

decreased unit labour costs.

while industrial producers' prices were increasing, reflected in **lower unit labour costs** - the nominal ones by 2.9% and the real ones by 4.5%.

Within the manufacturing industry, both nominal and real unit labour costs increased in five industries: the nominal unit labour costs' increases were the highest in the manufacture of coke and refining of crude oil (by 7.8%) and the real ones were the highest in the manufacture of pulp and paper products (by 5.1%).

Table II.1.6 Development in the relation of wages to labour productivity (the year-on-year change in %)

	Row No.	Year				2006				
		2002	2003	2004	2005	1st Q	2nd Q	3rd Q	4th Q	Year
Average nominal wage	1	6.0	5.7	7.2	4.7	6.4	6.5	5.3	6.1	6.0
Average wage recalculated with the producers' index	2	6.5	6.0	1.4	1.7	6.1	5.1	2.7	3.8	4.3
Labour productivity	3	6.4	9.5	10.5	8.2	14.0	7.6	6.8	9.0	9.2
Unit labour costs										
Nominal	1/3	-0.4	-3.5	-3.0	-3.2	-6.6	-1.0	-1.4	-2.7	-2.9
Real	2/3	0.1	-3.2	-8.2	-6.0	-6.9	-2.3	-3.8	-4.8	-4.5

Source: MIT estimate from CZSO data

High growth in revenues in organisations with 3 000 - 3 999 employees

In the **size structure**, the highest **revenue increases** (in constant prices) were achieved in organisations with 3 000 - 3 999 employees (by 68.2%) and their share in the total revenue increased by 1.5 p.p. to 4.6%. High growth was also reported by employment (by 16.7%). In this group, there are mostly private foreign owned enterprises classified, especially in the automotive industry, electro-engineering industry, and rubber industry. This size group has extended at the beginning of the year with the new car making plant TPCA in Kolín, the production of which started in full capacity at the beginning of 2006. Revenues developed favourably also in other three size groups (100 - 249, 1 000 - 1 999, and 500 - 999 employees), which reported the growth by more than 10% (and the share in the total revenue of 46.6%). Revenues from direct exports increased by almost one sixth (with the share of 56.6%). Revenue decreases were noticed in three size groups (20 - 49, 50 - 99, and 4 000 - 4 999 employees), which participated in the total revenue with 13.4%.

Strong performance of foreign owned enterprises and their share increases continued

In the structure of industrial enterprises by **institutional sectors**, **private foreign owned enterprises** maintained their strong performance and their revenues increased by 18.4% (their share in the total revenue reached 58.7%, the year-on-year increase by 3.9 p.p.). Foreign companies took advantage of their relations with main companies, which ensured sales for them. This reflected in growing revenues from direct exports by 15.2% (they participated in the revenue from sales of own products and services within this sector with 67.7%). Among other sectors, slight growth in revenues was reported by private national enterprises (by 2.2%), while their share decreased by 2.6 p.p. down to 36.2%. Significant decreases in revenues took place in the public sector (by 22.1%), the share of which lowered by 1.1 p.p. down to 4.3%.

The favourable development in private foreign owned enterprises reflected in employment, which grew by 3.7%. Its share in the total employment increased by 1.2 p.p. to 41.7%. In other sectors, employment stagnated in the case of private national enterprises and their share decreased by 0.6 p.p. down to 53.6%. A significant decline in employment took place in the public sector (by 10.7%) and the share decreased by 0.4 p.p., down to 2.9%.

Table II.1.7 Review of basic indicators by size categories in 2006

Ukazatel	Average number of enterpr.	Revenue from sales of own products and services			Revenue from direct exports, y-o-y chan. in co.p.	Number of employees			Average monthly				
		in billion CZK	Share in %	Y-o-y change in co.p.		in thous. people	Share in %	Y-o-y change	revenue/employee			wage	
									in CZK, co.p.	y-o-y change in co.p.	average level = 100	in CZK	Y-o-y change
Total enterprises with 20 or more employees	8 384	2 829.8	100.0	10.3	11.6	1 139.8	100.0	1.0	202 776	9.2	100.0	19 400	6.0
20 - 49	4 092	162.6	5.7	-4.0	-19.8	122.8	10.8	0.6	103 309	-4.5	50.9	15 984	3.3
50 - 99	1 907	181.0	6.4	-3.7	-1.2	133.9	11.7	0.5	108 601	-4.2	53.6	16 339	3.1
100 - 249	1 467	418.1	14.8	16.4	24.9	227.7	20.0	3.4	146 220	12.6	72.1	18 214	7.6
250 - 499	524	421.8	14.9	3.2	-2.7	183.0	16.1	-0.5	188 077	3.7	92.8	19 069	6.5
500 - 999	266	531.1	18.8	12.0	11.6	182.5	16.0	0.4	232 852	11.6	114.8	20 262	6.7
1000 - 1999	89	366.9	13.0	15.3	36.3	121.0	10.6	0.4	255 710	14.9	126.1	21 995	5.2
2000 - 2999	18	201.2	7.1	5.6	-10.2	42.1	3.7	-2.4	426 099	8.2	210.1	20 855	7.7
3000 - 3999	11	131.4	4.6	68.2	14.4	36.5	3.2	16.7	315 917	44.1	155.8	20 425	2.1
4000 - 4999	5	37.2	1.3	-0.7	-0.5	22.7	2.0	7.4	132 907	-7.5	65.5	20 706	-2.1
5000 a více	6	378.5	13.4	9.5	11.1	67.6	5.9	-5.2	447 581	15.5	220.7	25 685	9.6

Source: CZSO

Table II.1.8 Review of basic indicators by institutional sectors in 2006

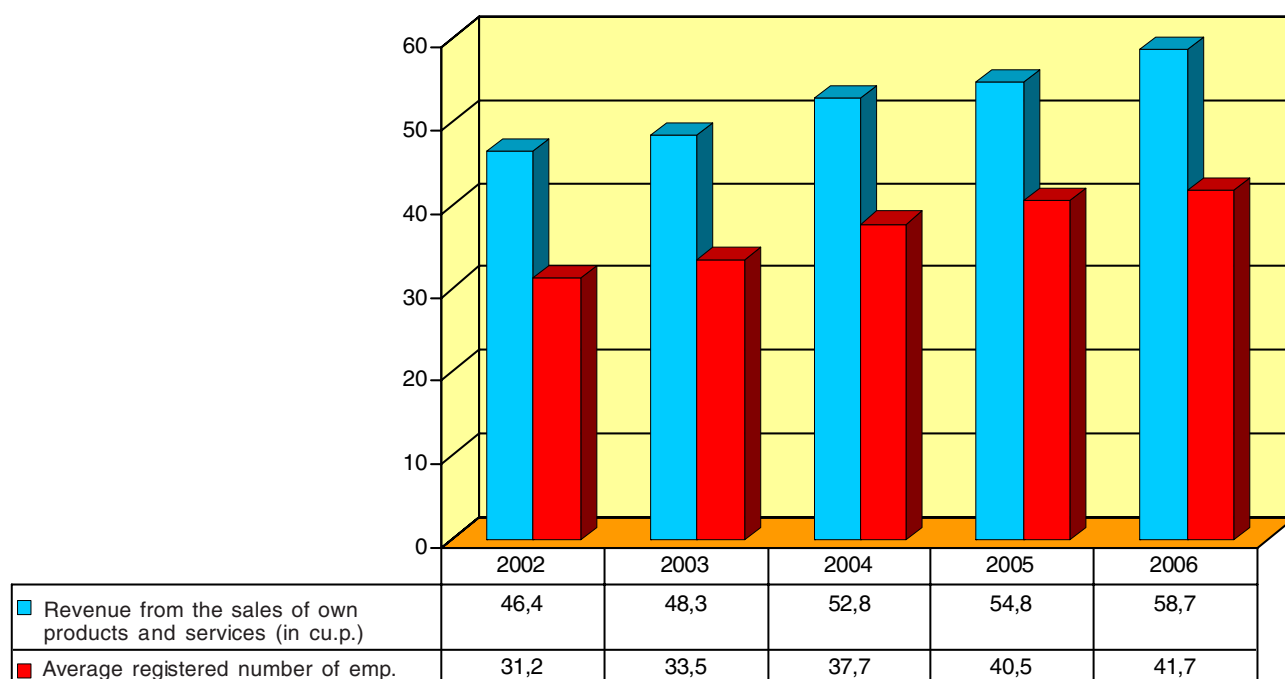
Ukazatel	Average number of enterpr.	Revenue from sales of own products and services			Revenue from direct exports y-o-y chan. in co.p.	Number of employees			Average monthly				
		in billion CZK	Share in %	Y-o-y change in co.p.		in thous. people	Share in %	Y-o-y change	revenue/employee			wage	
									in CZK, co.p.	y-o-y change in co.p.	average level = 100	in CZK	Y-o-y change
Total enterprises with 20 or more employees	8 384	2 829.8	100.0	10.3	11.6	1 139.8	100.0	1.0	202 776	9.2	100.0	19 400	6.0
11001 - Public	125	122.6	4.3	-22.1	-52.6	33.2	2.9	-10.7	240 887	-12.8	118.8	25 789	8.8
Non governmental sector thereof:	8 509	2 707.1	95.7	12.0	12.9	1 106.6	97.1	1.4	201 634	10.4	99.4	17 664	5.9
11002 - Private national	5 694	1 025.2	36.2	2.2	6.3	611.3	53.6	0.0	128 511	2.3	63.4	17 535	5.6
11003 - Private foreign owned	1 943	1 661.7	58.7	18.4	15.2	474.7	41.7	3.7	301 156	14.2	148.5	21 596	6.0
14000 - Employers ^{*)}	622	20.2	0.7	-6.8	-25.1	20.6	1.8	-7.4	77 937	0.6	38.4	13 861	6.2

Source: CZSO

Note: The non governmental sector = the sum of 11002, 11003, and 14000

^{*)} Natural persons with 20 or more employees not registered in the Commercial Register

Graph II.1.6 Share of foreign owned enterprises in the total revenue and employment (in %)



Source: CZSO, MIT graph

II.2 Investments in industry

The development in industrial investments has signalled a potential of further development in industry, in its competitiveness and technological level. It is related to the economical and political situation in the country, the development in demands, and also to conditions on its implementation. Industrial investments are characterised by a cyclic development and the current structure shows a shift from construction investments towards a higher share of investments to machines and technologies.

In 2006, the growth in gross tangible investments in industry slowed down by 4.4 p.p. down to 1.5% after the period of high investment activities by foreign companies in 2005 (creating the high year-on-year comparison base). Constructional investments, the share of which in the total volume of tangible investments equalled 30.1% (CZK 55.2 billion) decreased year-on-year by 5.5%, while investments to machines and equipment, with the total share of 68.2% (CZK 125.1 billion), reported slower growth by 3.1% than in the previous year (7.8%), and other investments (with the share of 1.7%, i.e. CZK 3.3 billion) increased by 15.0%.

Tangible investments grew by 24.7% in the extraction of minerals, the share of which in the total volume of investments in industry was only 4.4%.

Growth in investment activities slowed down by 3.8 p.p. down to 7.9% in the investment-intensive **production and distribution of electricity, gas and water**, the share of which in the total volume of industrial investments was 18.1%.

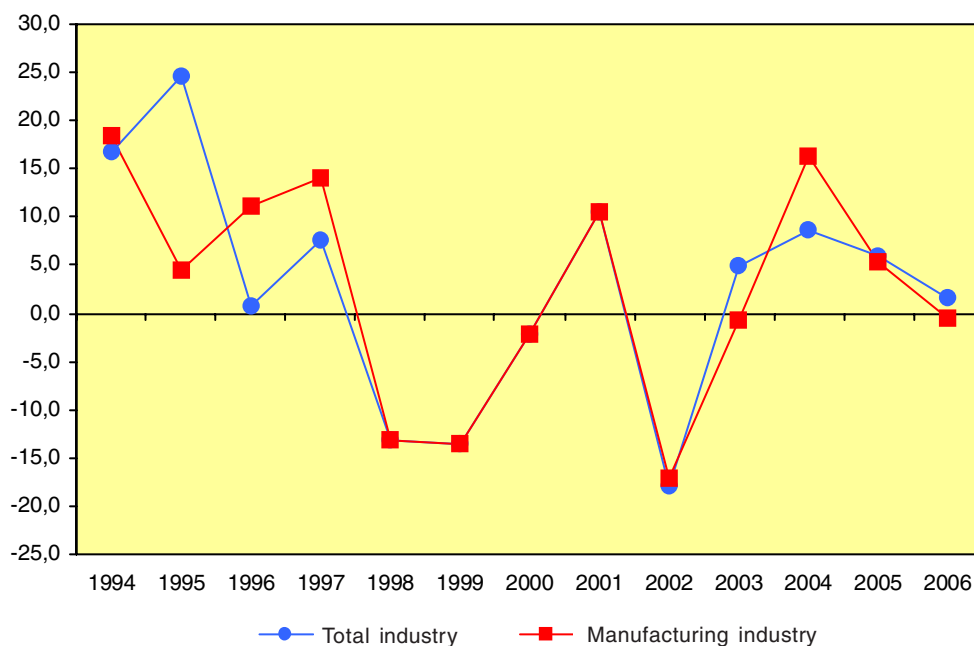
Slight decreases by 0.6% took place in the manufacturing industry (growth by

The total tangible investments in industry were increasing at a slower pace...

... but high growth took place in the extraction of minerals...

... and growth slowed down slightly in the manufacturing industry, while slight increases took place in the energy industry

Graph II.2.1 Gross investments in industry (organisations with 20 or more employees, year-on-year changes in %)



Source: CZSO, MIT graph

5.2% in 2005), the share of which in the total volume of industrial investments was the highest (77.5%).

From the structure point of view, investments to the manufacture of transport equipment made the most important part (14.6%) in the manufacturing industry. However, this industry reported the highest decreases (by 31.5%) because of the finalisation of big investments to construction of the car making plant TPCA, a.s. in 2005 (see Table II.2.1).

In contrast, the highest pace (by 55.8%) of growth took place in investments to the manufacture of coke and refining of crude oil, the share of which in the total volume of investments was, however, in the manufacturing industry only 0.8%.

Intangible investments reported high growth

In 2006, the total intangible investments in industry increased by 41.8%. Intangible investments (expenditures in research and development, software, know-how, patents, licences, trademarks, etc.) make a progressive part of investments because they support growth in labour productivity, technological level, and logistic activities. However, in addition to these factors, their high growth was influenced by acquisitions of emission permits. The highest volumes occurred in the extraction of minerals, in the production and distribution of electricity, gas and water, in the manufacture of basic metals and metal working products, and in the manufacture of chemicals, preparations, and fibres.

Table II.2.1 Gross investments in industry in the period

Sections and subsections (org. with 20 or more employees)	Tangible investments								Share in industrial investments (in %, cu.p.)				Intangible assets	
	in million CZK, cu.p.				Year-on-year changes (%, co.p.)									
	Total	Constr.	Mach., equip.	Other	Total	Constr.	Mach., equip..	Other	Total	Constr.	Mach., equip.	Other	mill.CZK cu.p.	y-o-y ch. (%, co.p.)
Total industry	183 536	55 196	125 085	3 254	1.5	-5.8	3.1	15.0	100.0	100.0	100.0	100.0	27 579	41.8
C Extraction of minerals	8 105	2 672	4 975	458	24.7	-16.1	40.6	94.7	4.4	4.8	4.0	14.1	3 606	2293.4
E Prod. and distrib. of power, gas, and water	33 167	18 311	14 370	486	7.9	-0.7	14.1	22.7	18.1	33.2	11.5	14.9	6 876	27.9
D Manufacturing industry	142 264	34 213	105 740	2 310	-0.6	-7.5	0.6	5.1	77.5	62.0	84.5	71.0	17 098	22.8
thereof:														
DA Man. of food, beverages, and tobacco prod.	16 326	4 247	11 799	280	23.2	12.9	25.3	28.0	8.9	7.7	9.4	8.6	739	29.5
DB Man. of textiles, textile products and clothes	3 950	1 075	2 826	49	32.3	27.8	33.4	20.0	2.2	1.9	2.3	1.5	174	188.7
DC Man. of leather and leather products	236	117	115	3	-2.9	-28.4	25.0	-63.4	0.1	0.2	0.1	0.1	10	368.1
DD Proc. of wood and man. of wooden prod.	4 160	1 259	2 860	41	27.8	-4.9	42.1	-56.9	2.3	2.3	2.3	1.3	60	130.9
DE Man. of pulp, paper, and paper products	7 965	1 433	6 491	41	32.0	34.4	33.0	-55.7	4.3	2.6	5.2	1.3	290	2.9
DF Man. of coke, nuclear fuel, and refining of oil	1 535	132	1 389	13	55.8	-53.4	82.5	-69.2	0.8	0.2	1.1	0.4	417	6.5
DG Man. of chemicals, preparations, pharmac.	7 366	2 493	4 830	43	-13.8	-21.3	-11.2	-44.0	4.0	4.5	3.9	1.3	3 314	11.9
DH Man. of plastic and rubber products	11 583	3 145	8 157	281	27.7	15.9	29.7	59.6	6.3	5.7	6.5	8.6	175	-28.2
DI Man. of other non metallic mineral products	8 889	2 093	6 439	357	-7.4	19.2	-12.6	89.6	4.8	3.8	5.1	11.0	1 202	485.2
DJ Man. of basic metals and metal working prod.	18 371	3 961	14 022	388	13.7	-12.4	19.8	-12.8	10.0	7.2	11.2	11.9	7 825	23.0
DK Man. and repairs of machines and equipment not classified elsewhere	15 389	3 546	11 581	262	-4.3	-28.0	0.9	12.3	8.4	6.4	9.3	8.0	507	0.2
DL Man. of electrical and optical instr. and equip.	16 337	4 194	11 840	303	15.4	5.4	16.5	92.3	8.9	7.6	9.5	9.3	929	54.5
DM Man. of transport equipment	26 720	5 408	21 137	176	-31.5	-24.5	-32.3	-40.0	14.6	9.8	16.9	5.4	1 364	-3.3
DN Man. industry not classified elsewhere	3 437	1 109	2 254	74	-2.5	-14.9	3.2	-43.6	1.9	2.0	1.8	2.3	92	-69.1

Source: CZSO - the quarter year reports P3-04 and MIT estimates

II.3 Financial situation in industrial enterprises

The year-on-year growth in financial indicators significantly improved

Financial results of industrial enterprises significantly improved consequently to the increased production, exports, and consumer and investment demands. **The improvement in financial results was supported especially by the manufacturing industry and the energy industry.** Results in the energy industry were probably significantly influenced by extensive restructuring and organisational changes.¹²

The basic financial indicators of the total industry, including the estimate for small subjects with up to 19 employees, **have documented more than double growth dynamics** in the year-on-year growth, when: **the book value added** grew by 12.2% (by 5.6% in the compared period), **outputs**, including the trade margin, increased by 17.1% (compared with 8.2% in 2005), and **the output consumption** grew by 18.8% (by 9.1% in 2005). The growth in outputs was slower than the output consumption in all quarters of 2006.

Enterprises continued in optimising their costs, which grew slower than the total revenues and improved the economic result.

Bigger industrial organisations (with 100 or more employees) have maintained their stable position in a long term in the total industrial results with the share of 79% in outputs and the output consumption, 76% in the book value added, and 67% in employment.

The year-on-year comparison of selected financial indicators in organisations with 100 or more employees was as follows:

1. Book value added

The manufacturing industry contributed the biggest share of the increased book value added

The book value added (in current prices) **increased** year-on-year in industry by 11.1% (see Table II.3.1), but **differently in individual sections.** According to the gain analysis, the contribution of the manufacturing industry was 7.6 p.p., the energy industry 3.3 p.p., while the contribution of the extraction of raw materials was negligible (0.1 p.p.). **Growing outputs** (without the trade margin of 17.7%) **stayed behind the growth in output consumption** (19.6%), but was **significant in the energy industry** 19.5 p.p. (61.6% to 84.1%). **In the manufacturing industry, this difference was smaller** 0.4 p.p. (11.4% to 11.8%). These very high increases in the energy industry were probably supported by sub supplies taking place in between the newly founded subsidiaries and main companies and by the inclusion of RWE Transgas to industry in 2006 (this company was in transport in the compared period).

Industries with high shares of foreign capital had the decisive influence

Only few industries contributed to the improvement taking place in the value added. They were mostly companies with prevailing foreign capitals and high export performances as well as the highest growth in production. Results were improved by new capacities focussed on products with high value added (e.g. special tires). Enterprises within these industries managed well decreases in export prices (started in 2005 and decreasing by 0.8% in 2006) and relatively small increases in prices of products by the manufacturing industry (by 0.7% year-on-year, while it was 2% in 2005). On the side of the output consumption, there were influences by imported raw material and material and component prices (the import prices grew by 0.8%), increased prices of energies, fuels, and transport fuels as

¹² There were new subsidiaries founded and the output consumption and outputs significantly grew. Another influence related to the transfer of RWE Transgas, a.s. to industry in 2006, while data of the compared period, related to this company, remained in transport.

Table II.3.1 Value added and the labour productivity based on value added in industry, in current prices (organisations with 100 or more employees)

	Outputs, incl. trade margins		Output consumption		Book value added		Labour pr. bas. on value add.	
	in billion CZK	y-o-y change in %	in billion CZK	y-o-y change in %	in billion CZK	y-o-y change in %	per employee in thous. CZK	y-o-y change in %
Industry	2968.4	17.5	2272.6	19.6	695.8	11.1	782.8	10.6
thereof:								
Extraction of minerals	71.3	3.8	33.3	2.7	37.9	4.4	942.3	7.2
Manufacturing industry	2377.9	11.3	1844.2	11.8	533.7	9.7	666.0	8.5
Prod. and distrib. of power, gas, and water	519.2	61.5	395.1	81.1	124.1	20.2	2630.2	28.6

Source: MIT estimate from CZSO data

well as prices of services. The positive influence related to the improvement in the book value added in the manufactures reporting for the first time in 2005, which started with a very low or negative book value added. The lower comparison base in 2005 was also influenced by some enterprises within the electro-engineering industry, where technological changes took place in the manufacture in 2005.

2. Labour productivity based on the book value added

Labour productivity significantly increased, while employment increased slightly

Labour productivity based on the book value added (in current prices) **speeded up its growth in industry** year-on-year from 5.2% to 10.6% (CZK 782.8 thousand/employee), while employment grew by 0.5%. **It increased above the average in the energy industry** (by 28.6%), where employment has been permanently decreasing because of restructuring and organisational changes. It increased by 8.6% in the manufacturing industry, where employment has been growing since 2005 (by 1.1% in 2006). In the branch structure within the manufacturing industry, its growth was the highest in the manufacture of computers (by 68.7%) and in the manufacture of radio, television and communication equipment (by 25%) thanks to the low comparison base. From the achieved labour productivity level point of view, there were not any changes at the first three places: the manufacture of coke and refining of crude oil remained first (CZK 1 607.5 thousand/employee, the decline by 15.6%) followed by the manufacture of chemicals, preparations and medicine (CZK 1 117.2 thousand/employee, the increase by 8.4%) and the manufacture of motor vehicles (CZK 945.5 thousand/employee, the increase by 12.1%). The fourth rank belonged to the manufacture of basic metals and metallurgical products (CZK 901.2 thousand/employee, the increase by 16.7%).

Labour productivity from the technological standard point of view

The development in the labour productivity based on the book value added in the manufacturing industry, from **the technological standard¹³ point of view**, according to the OECD methodology (**High Technology, Medium - High Technology, Medium - Low Technology, Low Technology**), indicated its highest improvement in Category I (High Technology) by 14.4% followed by Category II (10.7%), while its lowest growth took in Category IV (Low Technology) by 3.8%. Table II.3.2 presents the productivity levels in individual categories and these categories' shares in the book value added within the manufacturing industry.

From the achieved productivity standard point of view, Category III was leading (Medium - Low Technology). It has covered industries with high production volumes and lower work force intensity (refining of crude oil, the plastic and rubber industry, the manufacture of glass, ceramics and construction materials, and the metallurgical and metal working industry). **The second highest labour productivity level was in Category II** (Medium - High Technology) with the prevailing impact of the manufacture of motor vehicles and the chemical industry (without the manufacture of medicine). This Category has been permanently increasing its share in employment and in the book value added of the manufacturing industry.

The share of Category I (High Technology) has remained still low. This Category level has been influenced mainly by the manufacture of computers, where the productivity level has permanently remained below the average of the manufacturing industry. This has been mainly because most technologies, parts and components are imported and some role has been played also by transfer prices.

¹³ 1) High technology = NACEs 244, 30, 32, 33, 353

2) Medium - high technology = NACEs 24-244, 29, 31, 34, 352, 354

3) Medium - low technology = NACEs 23, 25, 26, 27, 28, 351

4) Low technology = NACEs 15, 16, 17, 18, 19, 20, 21, 22, 36, 37

The Category IV share has been permanently decreasing (Low Technology). It is represented by the consumers' industry and the manufacture of food. The achieved productivity level was the lowest one in this Category.

Table II.3.2 Labour productivity by the technology levels in the manufacturing industry (organisations with 100 or more employees)

Category	Labour productivity based on value added per employee in thousand CZK							
	1999	2000	2001	2002	2003	2004	2005	2006
1) High technology	356.3	432.1	399.3	561.3	540.9	608.9	534.9	612.0
2) Medium - high technology	400.9	464.8	507.8	482.7	547.3	614.9	622.5	688.8
3) Medium - low technology	398.5	491.2	484.0	475.1	573.0	677.4	669.8	723.7
4) Low technology	350.6	411.1	419.2	430.4	465.4	355.6	563.6	581.8
Total manufacturing industry	384.5	454.3	466.5	470.4	529.7	605.8	613.7	666.0

Category	Share in the book value added							
	1999	2000	2001	2002	2003	2004	2005	2006
1) High technology	5.3	6.3	5.9	8.4	7.0	7.7	6.7	7.5
2) Medium - high technology	35.2	35.4	37.8	36.3	37.9	38.0	38.7	40.2
3) Medium - low technology	29.0	29.7	28.7	27.8	29.4	30.7	30.6	30.8
4) Low technology	30.6	28.6	27.6	27.5	25.7	23.6	24.0	21.5
Total manufacturing industry	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: CZSO, MIT estimate

The position of Category II (Medium - High Technology) in the book value added of the manufacturing industry will strengthen in near future because of the construction of a new car making plant, which will increase demands for subcontracts. We might assume also slight increases in the share of Category I (High Technology). In contrast, the share of industries with low technological level will further decrease.

3. Economic result (revenues and costs)

The influences, which had their favourable impacts on the year-on-year development in the book value added, reflected also in **faster growing revenues** (16.6%), **when compared with growing costs** (15.9%). They thus reflected also in the relative **high growth in gross industrial profits** (by 28.2% to CZK 237.7 billion). **Its development in industrial section varied** (see Table II.3.3). Enterprises probably further restructured cost items and employment decreased in a number of industries. Enterprises also extended the area of purchase services etc. From the industrial sections' point of view, **gross profits grew mostly in the energy industry** (e.g. the effect of increasing energy prices, organisational changes - cost savings, sales of emission permits, the transfer of RWE Transgas). **The development was positive in the manufacturing industry** (growth by 24.3%), while it was **declining in the extraction of raw materials** (by 6.7%).

Significant increases in gross profits in the energy industry and improvements also in the manufacturing industry

From the point of view of the year-on-year profit change (the addition of CZK 52.4 billion), **the production factor¹⁴ had the decisive impact on the growth** within the scale of CZK 39.3 billion (the impact of 75%). **The impact of the non production factor¹⁵ was also positive** (CZK 13 billion), when other revenues

Fundamental impact of the production factor on growth in gross profits

¹⁴ Production factor = the year-on-year change in the net surplus from operations. The net surplus from operations = book value added - personal costs - depreciation

¹⁵ Non production factor = the year-on-year change in the balance of other revenues and other costs

Table II.3.3 Economic result before tax in industry (organisations with 100 or more employees)

	Economic result before tax			Included year-on-year change			
	bill. CZK	Y-o-y change		in profits		in losses	
		in %	bill. CZK	bill. CZK	in %	bill. CZK	in %
Industry	237.8	28.2	52.4	49.3	23.1	3.1	-10.8
thereof:							
Extraction of minerals	15.2	-6.7	-1.1	-1.4	-8.4	0.3	-60.8
Manufacturing industry	155.6	24.3	30.4	27.3	18.0	3.1	-11.6
Prod. and distrib. of power, gas, water	67.1	52.2	23.0	23.4	52.1	-0.4	45.0

Source: MIT estimate from CZSO data

grew faster than other costs. The high positive impact of the production factor on the added gross profits took place in the manufacturing industry (79%, i.e. CZK 24.2 billion), while it was lower in the energy industry (64%, i.e. CZK 14.6 billion). Growth in other revenues was influenced probably also by sales of emission permits. Revenues from sales of intangible assets grew three fold and were the highest in the energy industry.

Profits were increasing in profit making organisations, while losses decreased

From the structure of enterprises point of view, the development was completely different in 2006, when compared with 2005, in which the year-on-year change in the balance of gross profits had the decisive influence on growing losses. **In 2006, the growing balance of gross profits in industry was achieved by profit making organisations**, the number of which increased year-on-year by 3.8% to 1 923 and their gross profits grew by 23.1%, up to CZK 263 billion (by CZK 49.3 billion absolutely). Within the manufacturing industry, the best results belonged to the manufacture of motor vehicles (growth by CZK 10.3 billion), the manufacture of basic metals and metallurgical products (by CZK 4.4 billion), the manufacture of plastic and rubber products (by CZK 3.2 billion), and the manufacture of machines and equipment (by CZK 2.8 billion). **Loss making organisations** made 22% of the total number of organisations and their **number decreased** year-on-year by 9.3%, down to 534. **The volume of losses** decreased by 10.8%, down to CZK 25.2 billion. The decreasing losses occurred especially in the manufacture of radio, television, and communication equipment (CZK 3.7 billion) and in the manufacture of motor vehicles (CZK 2.7 billion). In contrast, losses increased significantly in the manufacture of computers (by CZK 3.3 billion).

Increasing revenues ahead of costs in industry influenced the manufacturing industry

Revenues grew faster in industry than the total costs by 0.7 p.p. thanks to **the manufacturing industry** (10.9% to 10.2%). **In the energy industry, increases in the total costs were faster** (66.1%) than revenues (64.4%) because of the enormous increases in output consumption. Both revenues and costs decreased in the extraction of raw materials. In the revenue structure, outputs increased by 17.7%, other not specified revenues (e.g. the revenues from sold unnecessary assets, emission permits, etc.) by 20.6% (by almost double of that in the energy industry), while minimal increases took place in revenues from sold goods (by 0.4%). Very high growth in both revenues and costs in the energy industry probably closely related to the executed extensive organisational changes in some companies within this section. They were accompanied with the founding of new subsidiaries resulting from the division of individual activities.

High growth in the output consumption influenced costs

Individual items in the cost structure developed as follows:

- *Output consumption (the share of 71.2%) increased in its volume by 19.6%, by 81.1% in the energy industry and by 11.8% in the manufacturing industry,*

- *Personal costs (the share of 9.7%) reported the year-on-year growth by 7.4%. They increased mostly in the manufacturing industry (by 9.3%), but also in the extraction of raw materials (by 4.5%), while they decreased by 0.1% in the energy industry,*
- *Other not specified costs (the share of 9.1%) increased absolutely by 13.7%. The highest increases were in the energy industry (by 61.3%), in the manufacturing industry (by 9.5%), while they decreased in the extraction of raw materials by 30%,*
- *Costs of goods (the share of 5.6%) decreased in their volume by 0.7%,*
- *Depreciation (the share of 4.4%) increased its growth year-on-year to 7% and grew mostly in the energy industry (by 19.7%).*

4. Assets, liabilities, and return on equity

The total assets of enterprises and resources of their coverage (liabilities) significantly increased their year-on-year growth, especially in the energy section. In industry, they increased year-on-year by 15.9%, by 31.8% in the energy industry, by 20.7% in the extraction of raw materials, and by 9% in the manufacturing industry. Their year-on-year addition reached almost CZK 380 billion (CZK 211 billion in the energy industry). Growing assets (liabilities) in this section were mostly influenced by organisational changes (subsidiaries), including the effect of assets' re-evaluation. **Equity increased** almost identically as liabilities. It increased in industry by 15.5%. The highest increases took place again in the energy industry (by 28.4%), in the manufacturing industry (by 9.6%), and in the extraction of raw materials (by 3.9%). **Growth in foreign resources** (liabilities - equity) **also speeded up** year-on-year to 16.4%. It was the highest in the extraction of raw materials (by 50.7%) and in the energy industry (by 38%), while it was the lowest in the manufacturing industry (by 8.4%).

Organisational changes in the energy industry contributed to the pronounced asset increases

Return on equity increased in industry by 1.6 p.p. to 16.1%. It grew mostly in the manufacturing industry (by 2.2 p.p. to 18.4%).

5. Stock and stock turnover

Stock increased year-on-year in industry by 14.2% to CZK 303.2 billion. It was by 209.4% to CZK 21 billion in the energy industry,¹⁶ by 9.2% to CZK 278.6 billion in the manufacturing industry, while it decreased in the extraction of raw materials by 2.6% to CZK 3.6 billion. In the stock structure, the highest increases took place in the stock of products (by 26.3% to CZK 74.4 billion), stock of materials (by 12% to CZK 132 billion), the production in progress (by 10.3% to CZK 76.8 billion), and in the stock of goods (by 4.7% to CZK 20 billion). Most industries within the manufacturing industry (with the exception of 4 ones) reported higher stock. When compared with outputs, which grew faster, the growth in stock was not dramatic.

Stock increased the year-on-year growth

Stock turnover (in relation to the total revenue¹⁷) **did not much change** and it shortened by 0.7 day to 35.4 days. This has been corresponding with the growing labour productivity and the total efficiency.

6. Institutional sectors

From the institutional sectors' point of view, the foreign owned sector reported significant year-on-year improvements in financial results. Enterprises within this sector (with the exception of employment) had the prevailing share in the

The foreign owned sector strengthened its share in industrial results

¹⁶ The influence of RWE Transgas, a.s. - growth in the stock of products.

¹⁷ Total revenue = revenues from sales of own products and services + revenues from sales of goods.

results of industry, when they achieved 60% of the total revenue and costs, 61% of outputs, 55.4% of the book value added, and 58.6% of gross profits. **Most of their monitored financial indicators were better than the ones in the sector of private national enterprises** - see Table II.3.4.

Employment grew only in the foreign owned sector

Employment¹⁸ has been growing for a long term in enterprises with 100 or more employees only in the foreign owned sector. The labour productivity level there increased the gap between foreign owned enterprises and private national enterprises, where it has been about 40% lower (the difference worsened year-on-year by 2 p.p.).

The foreign owned sector reported the highest year-on-year growth in assets (liabilities) and in equity. Its **profitability was the highest** and improved year-on-year by 1.4 p.p. to 20%. Stock in this sector increased the fastest (by 19.5%), while stock turnover did not change year-on-year and remained at 34 days (it was by 1.4 days lower than in the total industry).

Results of the foreign owned sector were influenced, in a positive way, by technological changes in the manufacture, by some new productions in 2005, which had been loss making or which had a low level of the indicators and created thus the low comparison base. Another very important influence in the year was the transfer of RWE Transgas to industry because the company was in the transport sector in 2005.

The slowest growth in flow financial indicators took place in the private sector

The total revenues increased slower than the total costs in the sector of private national enterprises (11% to 11.4%). Gross profits thus increased year-on-year by only 3%. Growth in the book value added stayed significantly below the increases in the remaining two sectors. Return on equity decreased by 0.6 p.p. to 11.6%. This sector could be characterised with the relatively high year-on-year growth in assets (liabilities) thanks to the influence of new enterprises occurring in the result of restructuring in the energy industry. The unfavourable results in the flow indicators were mostly influenced by the extraction of raw material section (mining enterprises) and the energy section, which reported high year-on-year decreases in the indicators (related to the original 5 distribution companies, which were restructured).

High year-on-year increases in flow indicators took place in the public sector

Results by the public sector have been fundamentally influenced by the energy section, which has had the highest weight (this is about ČEZ, a.s.¹⁹). In 2006, the public sector reported extraordinary growth in most flow indicators (revenues, costs, outputs, output consumption, book value added, and gross profits), which were influenced, with the exception of energy prices, by the executed restructuring. Any comparison of results of this sector with results of other industrial sectors would be very confusing.

Quartile division of labour productivity by sectors and branches within the manufacturing industry

When assessing sectors, in addition to average values, we can use also quartile arrangement. The Graphs in the Annex present the comparison of labour productivity based on the book value added by domestic enterprises with foreign owned enterprises with the quartile divided values.

Generally, we can say that the foreign owned enterprises have been achieving higher values and they have got a wider quartile span, more extensive scope of labour productivity values. The quartile span of domestic enterprises occurs in the lower part of the quartile arrangement of foreign enterprises' values, or below it. Both minimal and maximal values are influenced by extreme values of some enterprises.

However, there are industries, where the levels of the quartile spans are almost

¹⁸ The average registered numbers of employees do not include workers hired through job agencies, which are, in industry, used more by foreign companies.

¹⁹ The newly founded subsidiaries belong to the sector of private national enterprises.

Table II.3.4 Year-on-year changes in indicators by institutional sectors (organisations with 100 or more employees)

	Shares of sectors in industrial outputs (in %)		Year-on-year changes in %						Labour prod. bas. on val. add.	
			No. of units	No. of employees	Book value added	Outputs, incl. margin	Output consumption	Profits before tax	in thousand CZK	Y-o-y change in %
	2005	2006								
Industry	100.0	100.0	0.6	0.5	11.1	17.5	19.6	28.2	782.8	10.8
thereof:										
11001 - Public	4.7	4.9	-6.7	-5.5	19.5	22.4	25.6	54.0	2 504.2	26.4
11002 - Private national	35.1	33.7	-1.0	-2.9	3.9	13.0	16.1	3.0	550.6	7.1
11003 - Private foreign owned	60.2	61.3	3.9	4.7	14.4	19.7	21.3	35.6	894.8	9.3

Source: MIT estimate from CZSO data

Note: The Table does not include the employers' sector (entrepreneurs - natural persons with 100 or more employees not registered in the Commercial Register) because of its negligible share in the results.

identical in both sectors, e.g. the manufacture of clothes and processing of fur (NACE 18), thanks to the growth in labour productivity in domestic enterprises, the manufacture of electrical machines and equipment (NACE 31), and the manufacture of other transport equipment (NACE 35). The upper quartile decreased in foreign owned enterprises in the manufacture of healthcare, optical and time measuring equipment (NACE 33), while, in contrast, it increased in the case of domestic enterprises, and the quartile span of the two sectors got thus mutually closer.

III. CONSTRUCTION

III.1 Production, employment and productivity

Development in construction has been an important indicator for the development of the entire economy. It reflects dynamics of investment activities and contributes its multiplication influences to the development in other industries within the national economy.

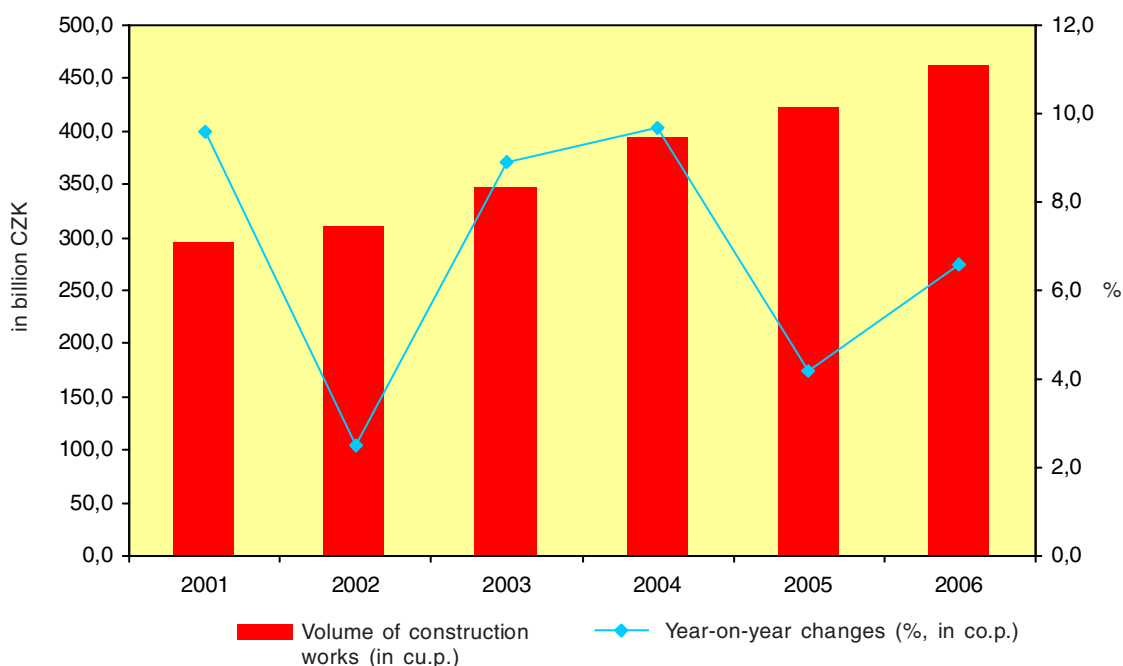
Main factors of the development related to extensive developers' construction projects by foreign investors focussed mostly on the construction of administration and multifunctional centres, but also to the intensive **housing constructions**. Important **investment projects in the transport infrastructure** also contributed to the growth (construction of freeways, railway routes and their hubs, and the extension of airport capacities).

Transport infrastructure and housing constructions...

Construction production had been growing already for seven years mostly at a high year-on-year pace. The year-on-year growth by 6.6% got faster in 2006 by 2.4 p.p., when compared with 2005 (see Graph III.1.1).

... maintained the long-term growth in construction

Graph III.1.1 Construction production in the period 2001 - 2006 (year-on-year changes in %)



Source: CZSO, MIT graph

Production in construction by small enterprises speeded up its pace of growth...

Small enterprises (up to 19 employees) have been playing an important role in construction. It was focussed mainly on the area of repairs and maintenance of housing constructions. They work also as subcontractors for larger construction enterprises. These small enterprises participated in the total volume of construction works with 30.7% and they **significantly speeded up the growth in the construction production to 6.7%** (from 2.3% in 2005).

Table III.1.1 Structure of construction works in the period 2002 - 2006
(construction enterprises with 20 or more employees)

	Year-on-year change (% , in co.p.)				2006		
	2002	2003	2004	2005	Y-o-y changes (%, co.p.)	Volume (in million CZK, cu.p.)	Share ¹ (in %, cu.p.)
Total construction works, according to contracts thereof:	2.6	9.0	8.9	5.1	6.6	320 867	100.0
- Total in the country	3.5	9.2	8.4	4.8	5.3	312 742	97.5
New constructions, reconstructions, and modernising	1.8	8.3	10.0	6.5	6.0	272 883	85.0
thereof: building constructions	-2.6	6.9	51.6	2.2	9.0	164 483	51.2
engineering constructions	10.3	10.7	32.8	13.3	1.6	108 400	33.8
Repairs and maintenance	14.1	14.7	-1.3	-5.8	6.3	37 832	11.8
thereof: building constructions	8.3	6.0	6.9	-2.0	-11.0	17 688	5.5
engineering constructions	22.5	25.3	6.1	-10.2	28.6	20 144	6.3
Other works	19.6	5.4	18.0	6.0	-48.2	2 028	0.7
- Abroad	-35.3	-1.4	49.5	17.9	73.7	8 125	2.5

Source: CZSO

... the pace was slower in bigger enterprises

In larger enterprises (with 20 or more employees), organising 69.3% of the total volume of construction works, **construction works increased** year-on-year by **6.6%** (by 5.1% in the same period a year ago) - see Table III.1.1.

Building constructions were ahead of engineering constructions in new constructions, reconstructions, and in modernising

The decisive volume of construction works was completed by enterprises with 20 or more employees (85.0%) in the country and those works related **to new constructions, reconstructions, and modernising** (with the year-on-year **growth by 6.0%**). Within those works, especially building constructions grew by 9.0%, while engineering constructions grew by only 1.6%.

Repairs and maintenance achieved growth after the previous year-on-year decrease

Works in the area of repairs and maintenance, with the share of 11.8% in the total volume of construction works, **increased** year-on-year by **6.3%** (there was the decrease by 5.8% reported in 2005). Significant growth took place especially in the area of engineering constructions (by 28.6%), while building constructions reported significant decreases by 11.0% (by 2.0% in 2005). The presented development in the building constructions could be caused by the low volume of housing constructions' repairs.

Exports of construction works were growing at a high pace, but their share stayed small

Construction works completed abroad significantly increased year-on-year by **73.7%** and their share increased as well by 0.9 p.p. (2.5%) in the total volume of construction production. However, this has proved the main focus on the domestic market.

Growth in average nominal wages got ahead of the growth in labour productivity,

Employment in construction enterprises with 20 or more employees **grew by only 0.3%** year-on-year. **Growth in labour productivity** based on construction works, according to contracts (S) equalled **6.3%**²⁰ (in constant prices) and the growth in

²⁰ As there were the same dynamics in the growth of construction works, according to contracts (S), and in the basic construction production (6.6%), the growth in labour productivity, derived from these indicators (6.3%), was also identical.

average nominal wages (by 7.3%) was even faster (the real wage increased by 4.3%). This led to slight increases in nominal unit labour costs by 0.9% and the real ones decreased by 1.9% (see Table III.1.2).

when construction works are assessed on the basis of contracts

Table III.1.2 Wages, labour productivity and unit labour costs
(organisations with 20 or more employees, the year-on-year change in %)

	Row	2000	2001	2002	2003	2004	2005	2006
Average nominal wage	1	4.9	7.0	6.4	6.1	6.2	3.8	7.3
Average real wage*	2	0.9	2.8	3.7	3.9	2.8	0.8	4.3
Labour productivity based on constr. outputs in co.p.	3	10.8	8.5	0.7	7.8	5.3	0.2	6.3
- Nominal unit labour costs	1/3	-5.3	-1.4	5.7	-1.6	0.9	3.6	0.9
- Real unit labour costs	2/3	-8.9	-5.3	3.0	-3.6	-2.4	0.6	-1.9

Source: CZSO

* Recalculated with the Construction Works' Index

From the institutional sectors' point of view (see Table III.1.3), private national enterprises (with the share of 80%) achieved the highest year-on-year increases in the construction production (by 7.7%), while employment increased by 2.6% and the labour productivity by 5%. Higher employment (by 3.1%) was reported by foreign owned enterprises, which increased the construction production only slightly (7.0%) - (with the share of 18%). However, foreign owned enterprises maintained its advanced level, which has been almost a half higher than that of national enterprises, despite their lower year-on-year increases in the labour productivity (S) by 3.8%. The enormous year-on-year increases in the labour productivity (S) in progressively disappearing public companies (by 139.2%) were caused by the very high decline in employment (by 80.2%) and decreased construction production (by 52.7% and the share of only 0.5%). The unfavourable development was reported also by enterprises of natural persons not registered in the Commercial Register. Their construction works decreased by 9.1% (the share of 1.5%) and employment decreased by 14.6% (the share of 3.4%).

Foreign owned enterprises were still the most productive ones

From the size structure point of view, enterprises with 400 - 499 employees reported the highest increases in the construction production (36.7%). Employment increased in these enterprises by 10.6% and the labour productivity (S) by 23.6%. The highest labour productivity was achieved in enterprises with 100 - 199 employees (by 25.8%), where the construction production increased year-on-year by 32.0% and the number of employees by 4.9%. Enterprises with 1 000 or more employees, which had the highest share in the construction production (28.6%) increased construction works by 8.1%, while employment grew slightly by 1.5% and the labour productivity (S) by 6.4%.

The number of issued building permits decreased year-on-year by 5.3% to 135 391, but **the orientation value of constructions increased by 10.8%** to CZK 360.9 billion (see Table III.1.4). **The average value of one building permit increased by 17.0%** to CZK 2 666 thousand. The year-on-year pace increased by 5.9 p.p. and that meant, apart of the rising prices, also higher construction intensity of an average construction.

The average value of one building permit increased...

In 2006, construction enterprises concluded 88 116 **new construction orders** (the year-on-year **decrease by 5.9%**) of the total value of CZK 299.0 billion. That, however, meant the year-on-year growth by 20.2%. The highest volume of orders (CZK 125.8 billion) went to the area of engineering constructions and also to constructions, which have not been for housing or manufacturing (CZK 61.6 billion). **The average value of a newly concluded construction order in the country reached CZK 3.4 million and increased year-on-year by 25.9%.**

... similarly as the average value of a newly concluded construction order

Table III.1.3 Basic indicators of construction enterprises by institutional sectors and sizes in 2006

Indicator	No. of enterpris.	Construction works by subcontracts (S)			Average number of employees			Average nominal wage		Labour productivity (S)	
		Total in million CZK (cu.p.)	Y-o-y changes (%, co.p.)	Share in %	Persons (in thous.)	Y-o-y changes (%, co.p.)	Share in %	CZK	Y-o-y changes (%, co.p.)	thous. CZK (cu.p.)	Y-o-y changes (%, co.p.)
Total construction enterpris. with 20 or more employees thereof by sectors:	2 482	320 867	6.6	100.0	162.2	0.3	100.0	20 304	7.3	1 979	6.3
11001 - Public	6	1 737	-52.7	0.5	0.7	-80.2	0.4	25 272	36.4	2 601	139.2
11002 - Private national	2 165	256 759	7.7	80.0	137.8	2.6	85.0	19 623	7.2	1 863	5.0
11003 - Private foreign owned	136	57 508	7.0	18.0	18.2	3.1	11.2	27 253	5.4	3 167	3.8
14000 - Employers*)	175	4 863	-9.1	1.5	5.5	-14.6	3.4	13 845	5.3	877	6.4
Thereof by the number of employees:											
20-24	627	15 959	6.5	5.0	13.6	0.3	8.4	15 703	5.7	1 170	6.2
25-49	1 080	47 885	8.2	15.0	36.7	-0.2	22.6	16 560	5.7	1 304	8.3
50-74	344	28 700	4.5	8.9	20.9	-2.3	12.9	17 681	6.5	1 375	7.0
75-99	140	17 401	-8.5	5.4	12.0	-9.0	7.4	18 278	4.3	1 454	0.6
100-199	187	41 446	32.0	12.9	24.6	4.9	15.2	19 067	8.4	1 683	25.8
200-299	49	25 891	-2.9	8.0	11.7	-2.2	7.2	20 439	10.0	2 215	-0.7
300-399	18	9 536	-29.0	3.0	6.2	-3.3	3.8	21 513	7.3	1 537	-26.6
400-499	10	10 570	36.7	3.3	4.3	10.6	2.7	21 940	8.4	2 456	23.6
500-999	17	31 704	1.5	9.9	12.5	6.3	7.7	25 306	5.9	2 543	-4.5
1000 or more	10	91 776	8.1	28.6	19.7	1.5	12.1	32 058	8.0	4 667	6.4

Source: CZSO

*) Natural persons not registered within the Commercial Register with 20 or more employees

Table III.1.4 Issued building permits in the period 2000 - 2006

	2000	Y-o-y changes (%, co.p.)	2001	Y-o-y changes (%, co.p.)	2002	Y-o-y changes (%, co.p.)	2003	Y-o-y changes (%, co.p.)	2004	Y-o-y changes (%, co.p.)	2005	Y-o-y changes (%, co.p.)	2006	mezir. changes (%, co.p.)
Number of issued building permits	169 574	1.2	149 244	-12.0	140 822	-5.6	149 339	6.0	153 622	2.9	142 941	-7.0	135 391	-5.3
Orientation value of constructions (in million CZK)	229 955	-3.7	236 375	2.8	242 212	2.5	286 228	18.2	315 072	10.1	325 824	3.4	360 945	10.8
Average value of 1 building permit (in thousand CZK)	1 356	4.8	1 584	16.8	1 720	8.6	1 917	11.5	2 051	7.0	2 279	11.1	2 666	17.0

Source: CZSO

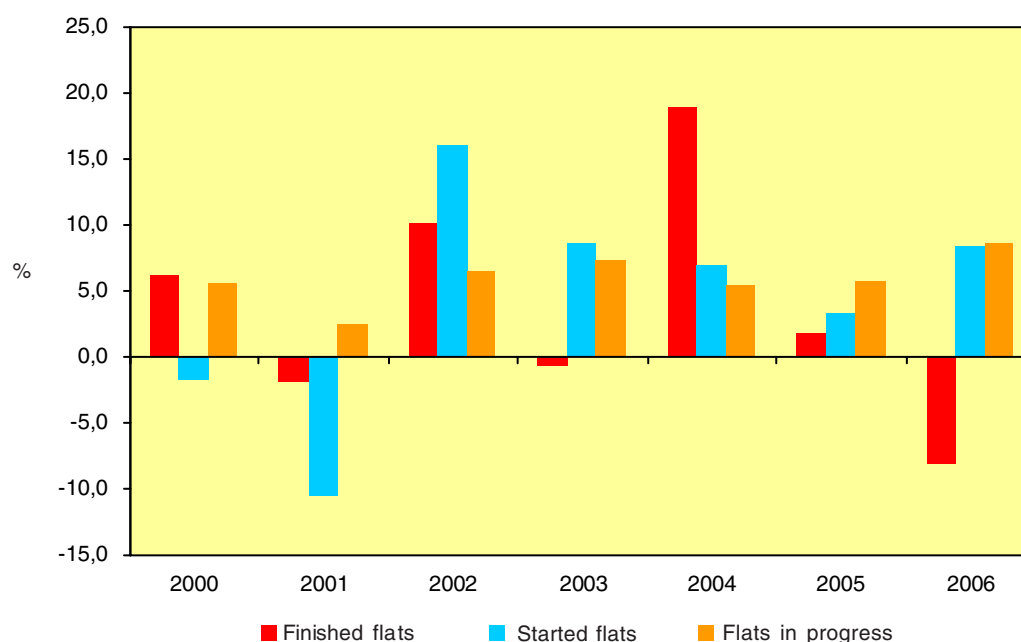
III.2 Housing constructions

Housing constructions developed in an intensive way

Housing constructions in 2006 could be characterised by **the fast growth in the number of started flats and flats in progress** connected with **a decrease in the number of finished flats** (see Graph III.2.1).

The intensive development in housing constructions continued to be based on the favourable development in the home loan market, in loans based on savings for building purposes, and on financial programmes supporting young couples, when purchasing their first flat. Worries related to the increased VAT rate covering housing construction works in 2008 also played its role.

Graph III.2.1 Housing constructions in the period 2000 - 2006 (year-on-year changes in %)



Source: CZSO, MIT graph

III.3 Financial situation in construction

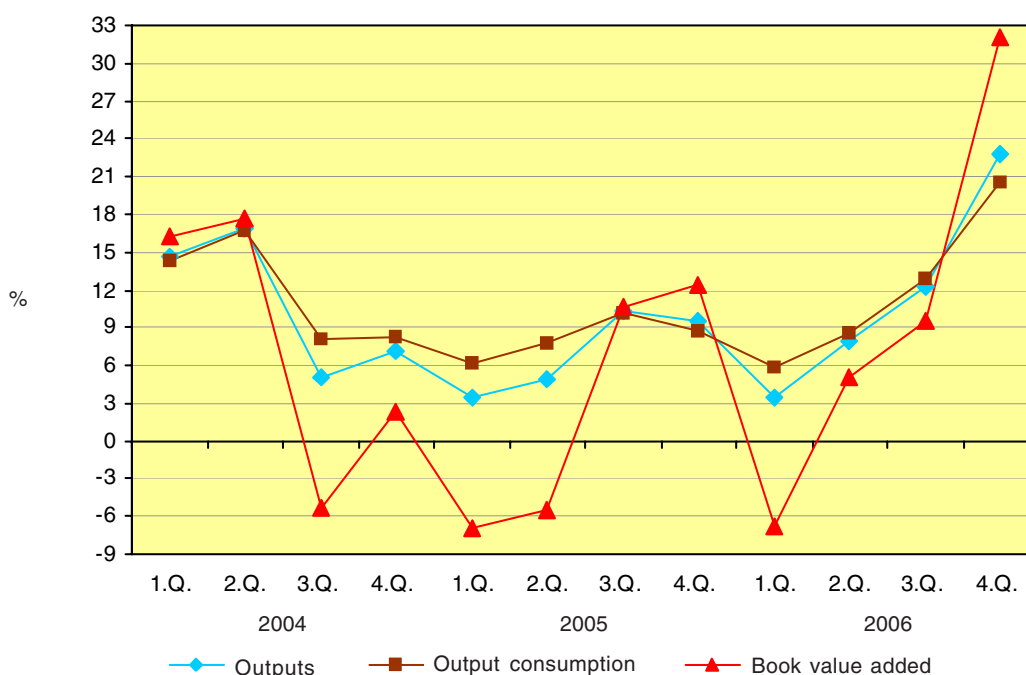
Financial results improved...

Financial results in construction significantly improved year-on-year in the result of growing construction production, especially in the second half of the year. **The total book value added** (including the estimate of organisations with up to 19 employees) **increased its year-on-year growth** from 4.2% in 2005 to 12.9% in 2006 (see Graph III.3.1). Both outputs and output consumption made their growth dynamics faster to 13%, when the output consumption grew faster (by 0.9 p.p.) in 2005, when compared with outputs (7.6%).

... especially in the 4th quarter

The results were significantly influenced by climatic conditions during the year. They were very unfavourable at the year beginning, while they were favourable at the year end. Financial results were improving during the year, e.g. the book value added transferred from the year-on-year decrease in the 1st quarter (by 6.7%) to the growth by 32.1% in the 4th quarter.

Graph III.3.1 Year-on-year changes in outputs, output consumption, and the book value added in the total construction in %



Source: CZSO, MIT graph

Big enterprises with 100 or more employees reported the two-digit growth in the majority of indicators. This group of enterprises participated in the total results of construction with less than a half and it created 49.5% of the total outputs in 2006.

Gross profits (the economic result before tax) **had been growing** with varied dynamics for the sixth year in a row in enterprises with 100 or more employees. They were influenced by high demands for construction works in 2006. The year-on-year growth was faster (28.3%) and reached CZK 14.7 billion. The growing profits were positively **influenced only by the production factor**. The net surplus from operations increased by CZK 3.6 billion. The non production factor (the balance of other revenues and other costs) worsened by CZK 0.3 billion.

Gross profits grew significantly

The volume of losses increased by a third, i.e. to CZK 1.1 billion. The share of loss making organisations increased to 14.9% (by 0.3 p.p.), i.e. 43 enterprises with the share in employment 8.7%.

The book value added significantly speeded up its year-on-year growth from 5.2% in 2005 to 16.4% in 2006 and it reached the value of CZK 49.7 billion. High increases were achieved by enterprises thanks to growing outputs, especially the revenues from sales of services. While the output consumption got ahead the growth in outputs in 2005, both indicators reported the same year-on-year growth in 2006.

The book value added increased

The labour productivity based on the book value added increased year-on-year by 15.3% (in current prices) to CZK 647.3 thousand. The value added grew significantly faster than employment.

Both revenues and costs reported the two-digit growth. However, costs grew slower. Output consumption has got the highest weight in the costs and it substantially influenced their growth. It reported the year-on-year growth by 16.4% and its share in costs increased by 0.5 p.p. to 81%. Other not specified costs grew even faster (by 25.5%), but their share in the costs was only 4.8%. Personal costs also increased (by 10.6%), while their share decreased by 0.5 p.p., down to 10.9%. We should stress that the number of subcontracts grew in construction and the

Growth in costs was influenced by increases in all parts, especially in the output consumption

subcontracts have been also including costs of labour, which have been included in the output consumption. Personal costs can be also influenced by migrating workers having lower wages. Depreciation and costs of sold goods participated with less than 2% in the total costs.

The level of stock increased

Within assets, **the share of stock** has been **decreasing** in a long term. The trend continued also in 2006. The share in the total assets decreased by 0.5 p.p., down to 8.8%. **The volume increased year-on-year** by 11.5%, to CZK 15.6 billion. The growth took place thanks to increasing stock of production in progress (by 12% year-on-year) and the stock made up about two thirds of the total stock. Growth in the volume of these stocks characterises the dynamics existing in the works in progress. However, the decreasing share is positive from the efficiency point of view because of lower funds necessary for the coverage. The stock of materials increased by 11.9%, to CZK 3.2 billion. **The stock turnover time** (compared with the total revenue) was faster by 0.9 day, to 19.9 days. The faster stock turnover documents shorter construction times, more intensive production, and the rising technological standards.

Improved results by construction enterprises are documented by **the return on equity**, which increased by 3.2 p.p., to 24.8%, and the return of costs by 0.5 p.p., to 5.2%.

Own resources grew

Own resources increased year-on-year by 26.1%, to CZK 14.8 billion, mainly thanks to the growing net profits. Enterprises invested into the long-term tangible and intangible assets CZK 8.2 billion and the stock increased by CZK 1.6 billion. The enterprises received CZK 3.2 billion from the revenues from sold assets. The financial resource needs for investments and increased stock thus did not reach one half of the created own resources.

The favourable development in financial indicators took place both in the sector of private national enterprises and in foreign owned enterprises.

Foreign owned enterprises reported higher effectiveness

The comparison of both sectors suggests that **foreign owned enterprises** achieved higher effectiveness. They definitively got ahead of domestic enterprises in the labour productivity based on value added, when their productivity was higher by 27.1%. They also achieved higher return on equity and their stock turnover was shorter by about 50%. On the other hand, this group of enterprises reported higher indebtedness.

Private national enterprises created about two thirds of outputs. This group of enterprises registered higher growth dynamics in revenues, outputs, but also in costs and output consumption. This reflected in the worse effectiveness. Domestic enterprises got higher stock and longer turnover, while it decreased in the case of foreign owned enterprises. Domestic enterprises increased the year-on-year volume of funds invested into the acquisition of long-term tangible and intangible assets. Foreign owned enterprises lowered their acquisitions year-on-year.

IV. EXTERNAL TRADE

IV.1 Overall results

Results of the external trade reflect the performance and growing competitiveness of the Czech economy, especially of the industrial production, and **the favourable development in the economy** in the world, especially in **EU** within which more than three quarters of trade takes place. **The importance** of external trade for the economy **is characterised also by the high share of the exported goods' value in the gross domestic product**. The value of exports made up 66.9% and the value of imports 65.5%. In the case of exports, that was the improvement by 4 p.p. and, in the case of imports, by 3.9 p.p. The development in these shares in the past, which documents the economy openness, is presented in Table IV.1.1.

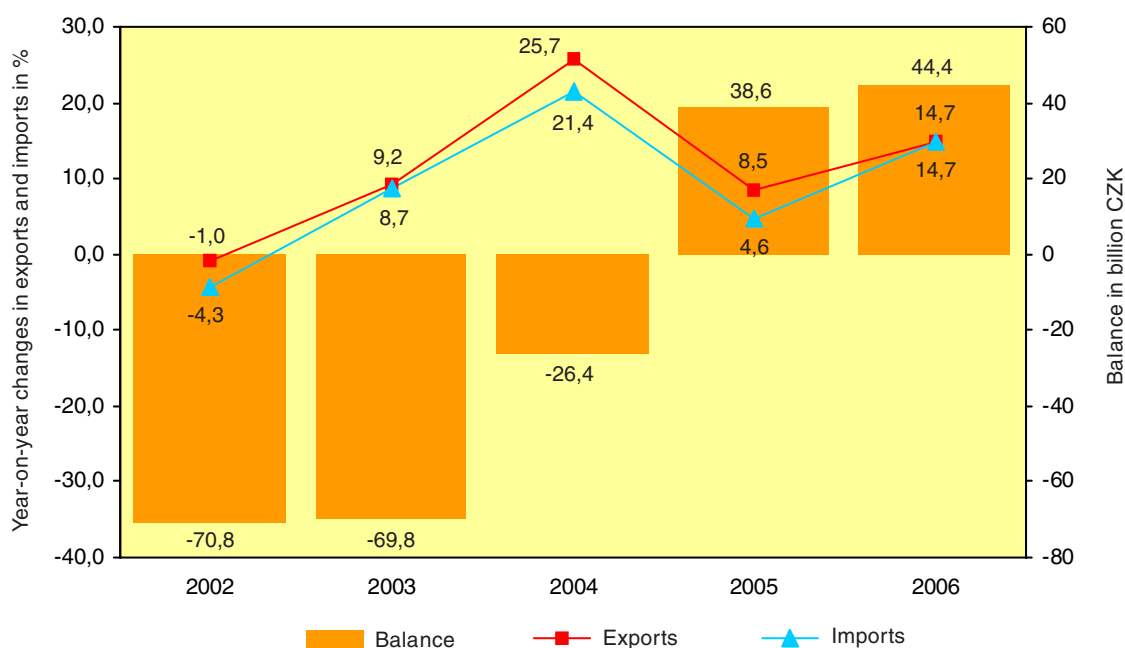
The results reflect the growing economy and its openness

Table IV.1.1 Share of exports within the foreign trade in goods in GDP in the period 2002 - 2006

	2002	2003	2004	2005	2006
Exports in % of GDP, in cu.p.	51,9	53,6	61,9	62,9	66,9
Imports in % of GDP, in cu.p.	54,9	56,4	62,9	61,6	65,5

Source: CZSO

Graph IV.1.1 Development in foreign trade in the period 2002 - 2006
(the year-on-year changes in exports and imports in %, the balance in billion CZK)



Source: CZSO

The overall results expressed as the balance of trade have been documenting the highly favourable development in recent years. The balances and the pace of growth in exports and imports are illustrated in Graph IV.1.1.

Foreign trade has finished with a surplus for the second year in a row...

The positive assessment of the overall results has been based mainly on the high increases in exports and on growing surpluses in the balance of trade. **Turnover** in 2006 **achieved the record-breaking value** of CZK 4 243.6 billion. Exports had a slightly prevailing share of 50.5% and their annual value was CZK 2 144 billion, while the value of imports was CZK 2 099.6 billion. **Dynamics were in two digits**, both exports and imports increased, in current prices, year-on-year identically by 14.7%. Imports prevailed in the first two quarters, while, in contrast, exports were faster in the 3rd and 4th quarters. **Balance of trade was positive (CZK 44.4 billion)** (it had achieved the surplus of CZK 38.6 billion for the first time in history in 2005). With the exception of the 2nd quarter, the balance was higher year-on-year in all quarters and the highest value was achieved in the 1st quarter (see Table IV.1.2).

Table IV.1.2 Development in foreign trade in individual quarters of 2006

	1st Q	2nd Q	3rd Q	4th Q	2006
Exports (in %) in current prices	18.9	10.8	12.4	17.0	14.7
Imports (in %) in current prices	19.5	12.5	11.4	16.0	14.7
Balance in 2005 (in billion CZK)	23.7	13.6	0.1	1.2	38.6
Balance in 2006 (in billion CZK)	25.9	7.4	4.5	6.6	44.4
y-o-y balance change (in billion CZK)	2.2	-6.2	4.4	5.4	5.8
Exports (in %) in constant prices	21.5	13.1	12.5	17.0	15.9
Imports (in %) in constant prices	18.4	12.7	12.2	18.6	15.4

Source: CZSO

... it was determined mostly by the results reported by the exports of machines and transport equipment...

The surplus in the balance of trade shows **the coverage of imports by exports**, which was 102.1% in 2006, similarly as in 2005. However, this coverage was strongly differentiated among individual commodities (see Table IV.1.3).

Table IV.1.3 Imports' coverage by exports in selected commodity groups (in %)

	2002	2003	2004	2005	2006
Total	94.6	95.2	98.5	102.1	102.1
0 Food and live animals	57.4	63.8	65.7	74.8	70.5
2 Raw materials, inedible, with the exceptions of fuels	91.9	93.8	89.4	91.9	94.9
3 Mineral fuels, lubricants and related materials	35.9	36.6	40.9	34.2	31.0
5 Chemicals and related materials not elsewhere classified	50.3	49.0	53.4	59.1	59.1
6 Market products, classified	107.6	109.2	107.7	108.6	104.5
7 Machines and transport equipment	110.9	111.5	118.4	128.8	131.7
8 Manufactured consumer goods	106.7	105.8	104.1	107.8	105.7

Source: CZSO

The highest coverage of imports by exports was achieved by the mechanical engineering group (131.7%) with the year-on-year growth of 2.9 p.p. This covered coverage decreases (with the exception of raw materials) related to other commodities. **Machines and transport equipment** strengthened their dominant position. Their share increased in the total exports year-on-year from 50.8% to 53.1%. Among mechanical engineering products, road vehicles were leading in exports and their surplus strengthened by about a quarter, when it reached CZK 185.8 billion. The total result of the foreign trade **was influenced, from the**

commodity point of view, mostly by the high deficit within the trade in mineral fuels, which deepened by CZK 28.8 billion to CZK 139 billion.

The positive balance related to EU countries got close to CZK 328 billion and allowed thus **the coverage of deficits** occurring in the trade with the other world countries, especially **the high deficit with China** (CZK 118.8 billion) **and Russia** (CZK 83.6 billion). The balance related to EU countries has been permanently growing and it increased by CZK 55.9 billion. It increased, when compared with 2000, more than threefold. The influences of individual countries on the balance development have been quantified in the chapter about the territorial structure.

... and the successful performance in EU markets

Terms of trade had a negative impact. They reached on the year average the unfavourable value of 98.4 because of growing import prices, while export prices were decreasing. This meant only a negligible year-on-year improvement. However, they progressively improved during the year from 95.2 in the 1st quarter to the positive value of 102.1 in the 4th quarter. Table IV.1.4 presents the reflection of changes in prices in individual commodity groups.

Prices had a negative influence on terms of trade

Table IV.1.4 Exchange relations (from price indices)

Skupiny SITC	Export price indices			Import price indices			Exchange relations		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Total	103.7	98.6	99.2	101.6	100.3	100.8	102.1	98.3	98.4
0 Food	103.5	96.9	98.3	102.5	99.2	99.8	101.0	97.7	98.5
1 Beverages and tobacco	90.1	105.8	94.7	105.1	100.5	94.0	85.7	105.3	100.7
2 Raw materials	102.1	98.0	108.5	109.1	101.1	94.2	93.6	96.9	115.2
3 Mineral fuels	120.1	116.5	99.8	106.5	129.2	112.8	112.8	90.2	88.5
4 Fats	101.4	94.4	106.0	102.8	89.3	99.3	98.6	105.7	106.7
5 Chemicals	107.3	101.4	102.1	101.7	98.1	99.1	105.5	103.4	103.0
6 Market products, classified	108.2	99.3	98.3	104.3	99.1	103.6	103.7	100.2	94.9
7 Machines and transport equipment	100.3	96.0	98.5	98.6	96.0	98.0	101.7	100.0	100.5
8 Manufactured consumer goods	100.2	97.5	98.9	99.4	92.7	94.4	100.8	105.2	104.8

Source: CZSO

The impact of the development in prices on the balance of trade was smaller, when compared with the previous year. It influenced the balance by about CZK 9 billion in a negative way (i.e. the total surplus would be higher by a fifth, if it was excluded). **In constant prices** (i.e. in tangible expression), the increases in exports and imports were slightly higher than in current prices. Exports increased year-on-year by 15.9% and imports by 15.4%.

Prices slowed down the growth in values of both exports and imports

The results expressed in crowns were influenced by the year-on-year strengthening of the Czech crown towards the dollar and the euro (by 5.6%, by 4.8% respectively). That is why the dynamics in exports and imports were higher expressed in USD or EUR than in the Czech crowns (exports grew by 22% and imports by 22.1% in the dollar expressions, while the growth in exports and imports was identical 20.5% in the euro). Exports reached USD 95.1 billion (EUR 75.7 billion) and imports reached USD 93.2 billion (EUR 74.1 billion). The positive balance in trade was USD 1.9 billion or EUR 1.6 billion. There was the year-on-year improvement by 0.3 billion in both currencies.

The dynamics were higher in the dollar or the euro expressions

IV.2 Territorial structure

All country groupings participated in the growth taking place in exports and imports

Advanced market economies participated in the added exports with 88% (CZK 275.4 billion) despite slight weakening of their share to 90%, while the exports there increased by 14.4%. Exports to all territory areas increased. The highest pace of growth related to other, the so-called countries outside Europe, CIS countries, and to European transition economies (within the range 22% - 28%). However, their share in the total exports was marginal. The lowest export dynamics occurred in relation to developing countries (6.9%).

Imports also increased from all groupings. **The highest added imports came from advanced market economies** (CZK 186.8 billion) and that contributed more than two thirds of the total addition. Imports from countries outside Europe reached the highest dynamics thanks to the big increases in imports from China. The detailed data about the turnover, exports, imports, and the balance within the territory division are presented in the Annex Table IV.1.

The surplus in the balance of trade with EU increased by a fifth

The trade with **EU countries** developed successfully. **There was 77% of the total turnover related to these countries in 2006. The surplus created in the trade with EU** (CZK 328 billion) covered the high deficits related to countries outside Europe (CZK 120.6 billion), thereof CIS (CZK 98.6 billion) and developing economies (CZK 45.4 billion). The review of countries with the highest surpluses in the balance of trade, ordered downwards, is presented in Table IV.2.1.

Table IV.2.1 Countries with the highest surpluses in the balance of trade in 2006

Country	Achieved surplus in bill. CZK	y-o-y change in bill. CZK	Highest surpluses in commodity groups (SITC) participating in the total result of the respective country in billion CZK					
			Mach. and trans. eq. 274.4		Market products 19.4		Manuf. cons. goods 1 2.7	
Total CR	44.4	5.8						
Germany	83.8	5.8	Mach. and trans. eq.	85.2	Manuf. cons. goods	27.9	Raw materials	9.9
Slovakia	67.8	6.3	Mach. and trans. eq.	43.0	Manuf. cons. goods	11.2	Chemicals	8.0
UK	47.4	5.8	Mach. and trans. eq.	40.9	Manuf. cons. goods	8.0	Market products	4.1
Austria	31.4	-0.3	Mach. and trans. eq.	21.5	Raw materials	7.3	Mineral fuels	6.0
Belgium	19.5	6.3	Mach. and trans. eq.	28.3	Manuf. cons. goods	4.2		
France	18.5	9.8	Mach. and trans. eq.	32.6	Manuf. cons. goods	1.8		
Spain	17.6	5.3	Mach. and trans. eq.	21.5	Market products	2.1	Manuf. cons. goods	1.9
Romania	15.4	3.8	Mach. and trans. eq.	8.1	Market products	3.1	Chemicals	2.4
Hungary	13.3	1.9	Market products	5.1	Mineral fuels	4.2	Mach. and trans. eq.	1.9
Sweden	12.3	14.3	Mach. and trans. eq.	15.3	Manuf. cons. goods	2.0	Food	0.2

Source: CZSO

The review of countries with the highest deficits in the balance of trade, including the review of commodities mostly participating in the deficits, is presented in Table IV.2.2.

The most significant positive changes

The countries with the most significant improvements in trade results:

- The deficit of CZK 2 billion in the balance of trade with **Sweden** changed into the surplus of CZK 12.3 billion (**the best improvement** within all countries) thanks to increased growth in exports and decreases in imports equalling identically a fourth. The decreased imports were influenced by the imports of jet fighters in 2005 worth more than CZK 10 billion.
- The surplus related to **France** increased year-on-year by CZK 9.8 billion to CZK 18.5 billion. That related mostly to increased exports by the mechanical

Table IV.2.2 Countries with the highest deficit in the balance of trade in 2006

Country	Achieved deficit in bill. CZK	y-o-y change in bill. CZK	Highest deficits in commodity groups (SITC) participating in the total result of the respective country in billion CZK			
China	-118.8	-31.9	Mach. and trans. eq.	-76.1	Manuf. cons. goods	-30.0
Russia	-83.6	-12.7	Mineral fuels	-102.7	Raw materials	-7.5
Japan	-54.4	-4.1	Mach. and trans. eq.	-46.3	Market products	-3.9
Taiwan	-24.3	-7.0	Mach. and trans. eq.	-19.5	Manuf. cons. goods	-3.3
Azerbaijan	-20.8	-7.7	Mineral fuels	-21.9		
South Korea	-13.4	-1.7	Mach. and trans. eq.	-11.3	Manuf. cons. goods	-1.1
Malaysia	-13.1	-3.1	Mach. and trans. eq.	-10.5	Raw materials	-1.2
Thailand	-10.1	-1.8	Mach. and trans. eq.	-6.2	Manuf. cons. goods	-2.1
Norway	-5.0	-0.4	Mineral fuels	-10.6	Chemicals	-0.2
					Market products	-9.1
					Manuf. cons. goods	-3.6
					Market products	-1.1
					Chemicals	-0.5
					Manuf. cons. goods	-0.6
					Market products	-1.0

Source: CZSO

engineering group. Exports of pumps and liquid conveyors doubled and exports of cars increased by a half.

- The deficit of CZK 8.9 billion in the balance of trade with **Italy** changed into the surplus of CZK 0.8 billion, when exports increased by a quarter. Increases in the exports took place mostly in mechanical engineering products (by more than 40%), mostly in items related to cars, equipment for the automated data processing, equipment for heating and cooling, and liquid pumps.
- In the case of **Ukraine**, the surplus increased year-on-year from CZK 0.5 billion to CZK 8.3 billion because of increased exports by more than a third, while imports decreased by one tenth. There was especially the decreasing value of iron and steel imports, while, in contrast, exports of road vehicles and of different other products increased.
- **The second highest surplus related to Slovakia**, when it increased year-on-year by CZK 6.3 billion to CZK 67.8 billion and imports got ahead of exports by 1 point (12.7% to 11.7%). The surplus increased especially thanks to the mechanical engineering group, industrial consumer goods, and chemicals.
- Exports of cars more than doubled year-on-year to **Belgium** and that increased the surplus by CZK 6.3 billion to CZK 19.5 billion.
- With **Switzerland**, the share of which in the turnover is only 1.4%, the deficit of CZK 4.5 billion changed into the surplus of CZK 1.4 billion (i.e. the year-on-year improvement by CZK 5.9 billion) thanks to increased exports by a quarter, while imports almost stagnated. There were especially the increased exports of cars, railway vehicles, electrical connecting equipment, and the equipment for automated data processing.
- In the case of **the biggest trading partner, Germany**, there was the increased surplus in the balance of trade by CZK 5.8 billion, to CZK 83.8 billion. This was the highest surplus in the balance of trade. Exports of fuels and materials increased by about one quarter (electric power increased by a third and the exports of metal ores and metal waste increased by two thirds). The increased surplus was influenced by growing surpluses related to some items by the mechanical engineering group (electrical equipment and appliances, equipment for telecommunications and recording, and road vehicles).
- The surplus in the balance of trade with **the United Kingdom** increased by CZK 5.8 billion to CZK 47.4 billion. Exports of the equipment for automated data processing increased by 70%.

Countries with the biggest year-on-year worsening in the balance of trade

- The biggest worsening in the balance of trade (by CZK 31.9 billion) took place in the trade with **China**, with which the deficit is the highest (CZK 118.8 billion). Exports covered imports at the level of only 7%. Imports from China increased year-on-year by more than a third and participated in the imports from countries outside Europe with 97.5%. It related mostly to the equipment for automated data processing, parts for this equipment, and shoes.
- Imports from **Russia** made almost three quarters of the imports from CIS. The deficit related to Russia further increased by CZK 12.7 billion to CZK 83.6 billion because of growing values of the imports of mineral fuels (by 22.5%). In contrast, exports of machines and transport equipment to Russia increased by a third and the surplus SITC 7 (CZK 19 billion) partly eliminated the deficit related to fuels.
- In the case of **Poland**, the surplus decreased year-on-year by CZK 8.1 billion, down to CZK 3.3 billion because of growing imports (by 30.5%), while exports increased by 19.2%. The decreased surplus was influenced by the growing deficit related to non ferrous metals and machines for the production of power. Big increases in imports took place in the items of piston engines with internal combustion, parts and accessories for motor vehicles, copper, and aluminium.
- The deficit in the balance of trade with **Azerbaijan** increased year-on-year by CZK 7.7 billion to CZK 20.8 billion mostly because of the growing value of imported crude oil (by more than a half).
- The increased imports (by more than a third) from **Taiwan** increased the growth in the deficit in the balance of trade by CZK 7 billion to CZK 24.3 billion. There were significant increases in the imports of industrial consumer goods (it related to musical instruments, parts, records, and tapes within the item of different products), machines and transport equipment (especially the equipment for telecommunications and electrical equipment, instruments, and appliances).

The numerical data related to the external trade with other countries are presented in the Annex with Tables (IV.3).

IV.3 Commodity structure

Machines and transport equipment strengthened their dominant position

Machines and transport equipment (SITC 7) have maintained its dominant position in the commodity structure for a long time. **Their trade surplus increased by more than a quarter to CZK 274.4 billion.** They strengthened its majority share in exports to 53.1% (by 2.3 points year-on-year) and in imports to 41.2% (by 0.9 p.p.). The balance of trade worsened in other commodity groups, with the exception of raw materials (see Table IV.3.1).

The increased surplus in the balance of trade related to the biggest commodity group SITC 7 was influenced mainly by:

- **Road vehicles** with the surplus of CZK 185.8 billion, when the value of exports, growing by almost a fifth, reached CZK 364.8 billion and participated in the group exports with 32%.

Among road vehicles, the leading position belonged especially to cars, their parts and accessories. The share of cars in the total exports increased by 0.9 p.p. to 9%, while it slightly weakened in imports, by 0.1 point to 2.4%. The surplus in the balance of trade increased by CZK 36.9 billion, to CZK 143.4 billion.

Table IV.3.1 Commodity structure in the foreign trade by SITC in 2006

	Total	0	1	2	3	4	5	6	7	8	9
Exports (in %)	100.0	2.9	0.5	2.6	2.9	0.1	6.0	20.8	53.1	11.0	0.0
Imports (in %)	100.0	4.2	0.6	2.7	9.6	0.2	10.4	20.3	41.2	10.6	0.1
Balance in 2005 (in billion CZK)	38.6	-20.6	-1.2	-4.2	-110.2	-1.9	-82.5	32.0	212.3	15.6	-0.7
Balance in 2006 (in billion CZK)	44.4	-26.1	-2.1	-2.9	-139.0	-2.0	-89.5	19.4	274.4	12.7	-0.5
year-on-year change of balance (in billion CZK)	5.8	-5.5	-0.9	1.3	-28.8	-0.1	-7.0	-12.6	62.1	-2.9	0.2

0 – food
1 – beverages and tobacco
2 – raw materials
3 – mineral fuels
4 – animal and vegetable fats
5 – chemicals

6 – Market products classified mainly by materials (they are mainly leather and leather products, products made of rubber, wood, paper, including paper, textile products, with the exception of clothes, cement, glass, porcelain, ceramics, iron and steel, non ferrous metals, and products made of metals)
7 – Machinery and transport equipment
8 – Manufactured consumer goods (they are mainly prefabricated buildings, healthcare and installation and other similar technologies, furniture, haberdashery, clothes, shoes, instruments, weapons, ammunition, sport goods, and toys)
9 – Not classified commodities

Source: CZSO

The value of exports of cars to Belgium more than doubled (by CZK 4.6 billion). It grew by a quarter in the case of Italy (by CZK 7.5 billion) and by a half to France (CZK 5.2 billion). In the case of our biggest customer - Germany, exports increased by a fifth, i.e. by CZK 7.3 billion. The review of the twelve biggest customers of cars in 2006 is presented in Table IV.3.2.

The share of parts and accessories for motor vehicles increased within imports only negligibly to 4.3%, while the share decreased in exports by 0.3 p.p. to 6.9%. The surplus in the balance of trade slightly decreased by CZK 0.5 billion, down to CZK 57.2 billion.

Table IV.3.2 The biggest customers of cars in 2006

Country	Exports bill. CZK	y-o-y change in %	Share in %
Total	191.9	26.8	100.0
Germany	42.7	20.6	22.3
Italy	17.3	76.8	9.0
United Kingdom	15.7	13.7	8.2
France	15.5	51.1	8.1
Spain	9.9	16.7	5.2
Slovakia	9.1	6.9	4.7
Poland	8.9	17.2	4.6
Belgium	8.6	116.8	4.5
Romania	6.2	29.5	3.2
Austria	5.9	-3.7	3.1
Hungary	5.5	28.8	2.9
Netherlands	5.1	37.8	2.7

Source: Search statistical system of the MIT external trade

- **Machines and equipment generally used in industry** increased their surplus in the balance of trade by CZK 11.3 billion to CZK 38.3 billion, when the export dynamics got ahead of import dynamics (16.2% to 9.3%). Exports of the equipment for heating and cooling increased by about a quarter.
- **Other transport equipment** transferred from the deficit of CZK 6.3 billion to the surplus of CZK 7.2 billion thanks to decreased imports (by almost a third). (The deficit of 2005 was influenced by the imports of jet fighters Jas Gripen.)
- **Electrical equipment, instruments and appliances** (the second biggest export item) changed its deficit in the balance of trade worth CZK 5.7 billion to the surplus of CZK 0.9 billion, when the exports increased by 12.4% and imports

by 8.5%. The deficit related to screens, condensers, diodes, and transistors, including parts, decreased by CZK 4.4 billion because of the growing exports by a tenth.

Table IV.3.3 Machines and transport equipment in 2006

	Exports		Imports		Balance of trade	
	2006 bill. CZK	y-o-y change %	2006 bill. CZK	y-o-y change %	2006 bill. CZK	y-o-y bill. CZK
SITC 7 - celkem	1 138.9	20.0	864.6	17.3	274.3	62.1
71 - Machines and equipment for the manuf. of energy	63.1	10.5	62.5	20.4	0.6	-4.6
72 - Machinery equipment for particular industries	65.8	11.6	54.3	5.3	11.5	4.1
73 - Metal working machines	20.1	14.4	19.4	5.3	0.7	1.6
74 - General industrial machinery and equipment	147.5	16.2	109.2	9.3	38.3	11.3
75 - Office equip. and the equip. for automated data proc.	164.8	40.3	136.1	56.7	28.7	-1.9
76 - Telecom., recording, and sound reproducing equip.	85.8	27.4	85.2	37.6	0.6	-4.8
77 - Electrical equipment, instruments and appliances	204.2	12.4	203.3	8.5	0.9	6.6
78 - Road vehicles	364.8	19.3	179.0	14.6	185.8	36.3
79 - Other transport equipment	22.8	38.9	15.6	-31.3	7.2	13.5

Source: CZSO

Table IV.3.4 Review of the biggest export items by the CPA structure in 2006

No	CPA item	Exports in bill. CZK	Share in %	y-o-y change in %
34	Two track motor vehicles	383.4	17.9	18.3
29	Machines, instrum., and equip. not elsewhere classif.	267.6	12.5	13.7
31	Electrical machines and instruments	173.8	8.1	16.4
30	Office machines and computers	164.8	7.7	40.4
27	Metallurgical and foundry products	138.5	6.5	19.2
28	Metal working products, with the exception of machines	134.2	6.3	9.8
32	Radio, television, and communication equipment	124.5	5.8	21.2
24	Chemical industry products and fibres	118.7	5.5	9.2
25	Plastic and rubber products	101.6	4.7	10.4
36	Furniture and manufacturing industry products	77.4	3.6	13.8

Table IV.3.5 Review of the biggest import items by the CPA structure in 2006

No	CPA item	Imports in bill. CZK	Share in %	y-o-y change in %
24	Chemical industry products and fibres	209.5	10.0	10.7
34	Two track motor vehicles	208.3	9.9	16.2
29	Machines, instrum., and equip. not elsewhere classif.	205.7	9.8	5.9
27	Metallurgical and foundry products	186.3	8.9	27.1
32	Radio, television, and communication equipment	148.9	7.1	17.7
11	Crude oil and natural gas	142.0	6.8	24.8
31	Electrical machines and instruments	138.7	6.6	17.1
30	Office machines and computers	136.1	6.5	56.8
25	Plastic and rubber products	108.5	5.2	8.2
28	Metal working products, with the exception of machines	90.2	4.3	12.0

Source: MIT

Apart from cars, exports of a number of other commodities also strengthened

The comparison of reviews of the ten biggest export and import commodities, ranked downwards according to the groups in the Standard Classification of Products (CPA), provides for some important information.

The review shows that the biggest year-on-year **growth in exports took place in a number of industrial commodities, which have not belonged among the absolutely strongest ones** from their share in the total exports' point of view. The pace of growth in exports was significantly faster, when compared with the dominant motor vehicles, especially in the case of office equipment and computers, radio, television and communication equipment, and of metallurgical and metal casting products. **The portfolio of important exporters has thus extended** and the strong dependency of the boom on sales of cars has been milder.

Among the ten strongest export commodities, the six ones were also represented among the ten biggest import commodities. The imports of motor vehicles (and their parts) were ranked in the second place. **The high shares of exports and, at the same time, imports related to products by the identical industry** indicate the developed international co-operation within industries, which reflects integration relations and capital interconnections within the Czech economy.

The second biggest commodity group - **market products classified mainly by materials** (SITC 6), decreased its surplus from CZK 32 billion to CZK 19.4 billion mostly because of imports being ahead of exports (14.1% to 9.9%). The share in exports decreased by 0.9 points, down to 20.8%, and the share in imports decreased by 0.2 points, down to 20.3%.

The third biggest group of goods - **industrial consumer goods** (SITC 8), decreased its surplus in the balance of trade by CZK 2.9 billion, down to CZK 12.7 billion. The shares of industrial consumer goods in both exports and imports slightly decreased (to 11.5%, to 10.6% respectively), when exports grew by 9.6% and imports by 11.8%.

The growing import prices influenced, in the first half year, the increased value of mineral fuels' imports (SITC 3). In the 1st quarter, the import prices increased year-on-year by 38.6%, in the 2nd quarter by 20.8%, and in the 3rd quarter by 6.2%. They decreased by 6.4% in the 4th quarter. They increased on average during the year by 12.8%. **The price of Brent crude oil** increased during the year up to USD 74.5/barrel (in July) and reached on average USD 66.2/barrel. It was thus by 11.1% higher than in the previous year. **The price of natural gas** increased up to USD 323.6 for a thousand cubic metres (in November) and was thus on the year average USD 304/tm³, while it was USD 227.7/tm³ in 2005. Graph IV.3.1 presents the development of these prices during the last two years.

The deficit related to chemicals and related products (SITC 5) had further grown after a year again by CZK 7 billion, to CZK 89.5 billion, when the dynamics were increasing almost identically - the exports by 8.7% and imports by 8.6%. The coverage of imports by exports got slightly worse and the imports were covered by exports at the rate of 59.1%.

Food and live animals (SITC 0) has been the group, which, according to the level of the deficit (CZK 26.1 billion), ranks the third in the commodity structure. The imports grew more than fourfold faster than exports (8.2% to 1.9%) and caused the increased deficit by CZK 5.5 billion and also the lower coverage of imports by exports by 4.3 p.p., down to 70.5%.

Inedible raw materials, with the exception of fuels (SITC 2) were together with machines the only commodity decreasing their deficit from CZK 4.2 billion to CZK 2.9 billion mostly because of lower import prices (by 5.8%) and increased export prices (by 8.5%). The value of exported metal ores and metal waste increased by more than a half. The value of imports decreased especially in cork and wood and that caused the increasing of the highest group surplus, up to CZK 10.5 billion.

In the structure of imports by the assumed way of use the fastest year-on-year growth belonged to the imports for **investment uses** (by 20.9%). This related to

Co-operation relations accelerate both exports and imports

The surplus by market products decreased by almost a half..

... and the surplus related to industrial consumer goods decreased by almost a fifth

The deficit related to fuels increased by more than a quarter

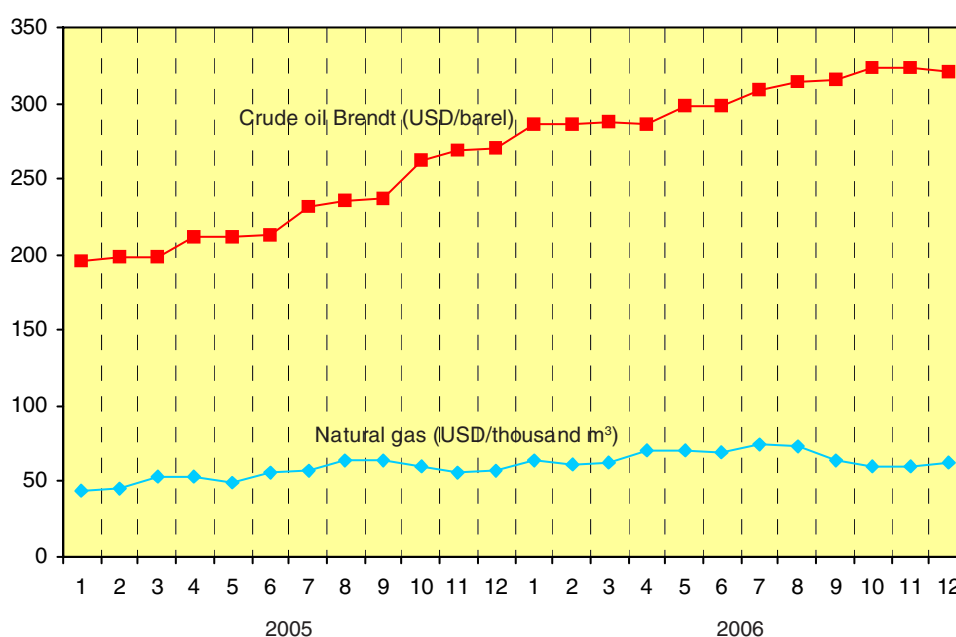
The deficit related to chemicals had further grown after one year

The decreased exports of grain and sugar caused a higher deficit related to food

Prices influenced the decreasing deficit related to materials

The share of imports for investment use grew

Graph IV.3.1 Development in prices of crude oil and natural gas in world stock exchanges in individual months of 2005 and 2006 (averages of daily recordings)



Source: CZSO, MIT graph

specific investment events. Their share in the total imports increased year-on-year by 1.5 points to 29.1%. The long-term dominant share of imports for **the manufacturing use** related to the need of imports of a number of materials and import intensity of the manufacture for exports resulting from the high involvement in the international co-operation (see Table IV.3.6).

Table IV.3.6 Import structure by the way of use in the period 2004 - 2006

	2004		2005		2006		Change in % 2006/2005
	billion CZK	Share in %	billion CZK	Share in %	billion CZK	Share in %	
Imports for:							
- Personal use	381.4	21.8	400.6	21.9	439.6	20.9	109.7
- Investment use	507.5	29.0	505.4	27.6	611.0	29.1	120.9
- Manufacturing use	859.5	49.2	923.0	50.5	1048.4	50.0	113.6

Source: MIT

The share of sophisticated production grew especially in exports

Computing technology within the group of HI-TECH products dominated in both exports and imports

The structure of trading by the level of processing of the production changed only slightly despite high increases in the export and import values. In exports, the share of higher level processed products increased by 0.8 point to 88.1%, while in imports they increased only negligibly to 78.2% as illustrated in Table IV.3.7.

The share of HI-TECH products (i.e. the highly technologically advanced technologies) **increased in exports** (by 1.2 p.p.) to 13.4% and **in imports** (by 0.6 p.p.) to 14.9%. The deficit related to these products decreased year-on-year by CZK 9.5 billion to CZK 25.2 billion. The biggest export item was **the computing technology**, which reached the value of CZK 161.7 billion thanks to exports growing by 40%. It became the strongest import item the value of which increased year-on-year by more than a half to CZK 132 billion. It created **the biggest surplus in the balance of trade** within the group with CZK 29.6 billion. The second biggest item covered **electronic and telecommunication products**, which, in contrast, created **the biggest deficit** (CZK 33.5 billion).

Table IV.3.7 Export structure by the level of processing in the years 2005 and 2006

	Share in %			
	Exports		Imports	
	2005	2006	2005	2006
A. Products with a lower level of processing	12.7	11.9	21.9	21.8
- Food and materials for the food production	4.1	3.6	5.5	5.2
- Materials, including energy and secondary waste	2.3	2.5	8.3	8.9
- Semi-finished products	6.3	5.8	8.1	7.7
B. Products with a higher level of processing	87.3	88.1	78.1	78.2
- Machinery and electro-engineering products	58.1	60.1	46.1	46.8
- Other finished products	29.2	28.0	32.0	31.4

Source: MIT

V. INTERNAL TRADE AND FINAL HOUSEHOLD CONSUMPTION

V.1 Trade sectors

The position of **trade** in the structure of the national economy has been stable. Its share in the total **gross value added** and in **the total employment** has reached more than 12% and in the total number of enterprising units it participates with more than a quarter. The strengthening final household consumption strongly supported the growing GDP. The development in internal market demands has been an important signal for the enterprising orientation and it indicates the participation of consumers in the growing economic performance.

Trade sectors had an important position within the structure of the national economy

Trading activities are characterised mostly by the total **revenues from the sales of goods and services**. They reached, in current prices without DPH (VAT), CZK 2 886.8 billion in 2006 and **increased by 5.8%** year-on-year. This acceleration has been the reflection of growing real incomes, increased employment, rich market offers, and easy accessibility of loans, low interests on savings, strong travel industry, and strong purchase activities in both enterprising and public sectors on the internal market. These trends increased, at different rates, in all areas of trade, **especially in the automotive segment** by 7.2% (there are more details in Table V.1.1).

Revenues grew in all areas of trade...

Table V.1.1 Revenues from trade (current prices, without DPH - VAT)

	Revenues in billion CZK						Growth	Share in %	
	2005	2006					in %	2005	2006
		1st Q	2nd Q	3rd Q	4th Q	Year	06/05		
Trade sector (G=NACE 50, 51, 52)	2 727.3	626.2	732.7	724.7	803.2	2 886.8	5.8	100.0	100.0
Motor vehicles and fuels (NACE 50)	393.5	88.5	113.7	108.8	110.7	421.7	7.2	14.4	14.6
Wholesale (NACE 51)	1 630.8	375.1	435.1	432.1	477.1	1 719.4	5.4	59.8	59.6
Retail (NACE 52)	703.0	162.6	183.9	183.8	215.4	745.7	6.1	25.8	25.8
thereof: Big enterprises ^{*)}	308.0	73.3	84.3	83.9	98.0	339.4	10.2	11.3	11.7
Other enterprises	395.0	89.3	99.7	99.9	117.5	406.4	2.9	14.5	14.1

Source: CZSO (a quarter year surveys)

^{*)} Enterprises with 100 or more employees covering hypermarkets and supermarkets

The increased revenue in the automotive segment relates not only to the growing revenues from sales of new and secondhand spare parts, but also with the not balanced development in prices of fuels. Sales related to the market of new and secondhand cars and small utility trucks up to 3.5 tons in the period 2004 - 2006 are documented in Table V.1.2. This Table has been based on data about the first registration of new and secondhand vehicles within the Central Vehicle Registry. While **sales of secondhand vehicles** increased year-on-year by almost 30%, the sales of new cars decreased by 2.7%. In contrast, sales of new **utility trucks up to**

... both in the automotive segment...

3.5 tons (the possibility of DPH - VAT deduction, when rebuilt) reported significant increases by 26.8% and in the case of secondhand ones by 11.4%.

Table V.1.2 Development in the market with cars and utility vehicles up to 3.5 t (the first registration)

		Number of pieces			Difference (in p.s.)		Growth (+), decr (-) %	
		2006	2005	2004	06-05	05-04	06/05	05/04
Total cars and small utilities up to 3.5 t	New	173 478	166 423	154 703	7 055	11 720	4.24	7.58
	Secondhand	191 159	148 085	126 912	43 074	21 173	29.09	16.68
thereof: Cars <i>thereof Škoda</i>	New	123 987	127 376	125 768	-3 389	1 608	-2.66	1.28
	Secondhand	51 833	56 743	60 333	-4 910	-3 590	-8.65	-5.95
Small utility trucks	New	183 143	140 889	120 702	42 254	20 187	29.99	16.72
	Secondhand	49 491	39 047	28 935	10 444	10 112	26.75	34.95
		8 016	7 196	6 210	820	986	11.40	15.88

Source: Statistics by the Union of Car Importers, Association of the Automotive Industry

The year-on-year **increases in retail revenues** by 6.1% doubled, when compared with 2005 (2.6%). Apart from the above-mentioned reasons in the household income area, the change in the structure of consumption also participated in this because the consumption focussed on more advanced long-lasting products (the faster year-on-year growth in revenues in the area of inedible goods, when compared with food).

... and in retail

The fast **growth in revenues of big retail enterprises** with 100 or more employees continued (by 10.2% year-on-year). They include mainly supermarkets and hypermarkets. **Revenues of enterprises with fewer employees grew** year-on-year by 2.9% and that presented a positive change in their long-term development (their revenues decreased in 2005 year-on-year by 0.8%).

Revenues of small enterprises also grew

Trading enterprises (with 100 or more employees) **have been increasing their share in the total revenue** in all segments of trade for a number of years (Table V.1.3). They achieved the biggest share in revenues in retail (45.5%). The decline in the market share of small trading organisations has been slowing down despite strong competition pressures and the „price war“, which have reflected in the financial position of smaller traders. However, small trading enterprises have still maintained an important position in the structure of trading formats.

The market share of big trading enterprises has been growing

Table V.1.3 Development in the market share of trading enterprises with 100 or more employees in the total revenue in % (current prices without DPH - VAT)

	1998	2000	2002	2003	2004	2005	2006
- Motor vehicles and fuels (NACE 50))	17.0	23.8	24.2	27.6	30.0	28.2	32.0
- Wholesale (NACE 51)	24.3	23.6	23.4	28.0	30.4	31.0	33.7
- Retail (NACE 52)	27.8	31.5	36.0	37.3	41.1	43.8	45.5
Total trade (50, 51, 52)	24.2	25.5	26.9	30.6	33.2	33.9	36.5

Source: CZSO

The **trade** outputs increased year-on-year by 8.6% and this, at the growth in the **output consumption** by 7.8%, led to the growing **book value added** (by 9.6%). **The trading margin** increased by 0.5 p.p. to 15.9%, thereof by 0.4 p.p. to 22.0% **in retail**, by 0.1 p.p. to 10.4% **in the automotive segment**, and by 0.6 p.p. to 14.4% **in wholesale**.

The trading margin grew at different rates in all areas of trade

The differentiated level of margin results largely from the differing characters of sales and from the differing levels of average prices of goods offered in individual segments of trade.

The favourable results resulted in growing employment

The number of workers (including entrepreneurs and co-operating household members) **increased year-on-year** by 1.7% to 718.8 thousand people. **The average monthly wage** increased by 6.0% (by 6.9% in retail). Its level of CZK 17 688 reached 93.1% of the average wage within the national economy. **The labour productivity** (the revenue in current prices per worker) increased year-on-year by 4.0%.

The prevailing number of foreign owned enterprises in the retail market has been further increasing

The share of foreign owned enterprises within big enterprises with 100 or more employees more than doubled in the period 1998 - 2006 (from 27.0% to 63.4%). These enterprises prevailed in all areas of trade (their market share in wholesale was 53.2%, in the automotive segment 63.2%, and in retail 80.9%). **The prevalence of multinational enterprises**, when compared with domestic trading enterprises, resulted mostly from their financial strength and commercial experience. This reflected also in the purchase terms concluded with suppliers. The comparison of some characteristics of foreign owned retail enterprises with the domestic ones, with 100 or more employees (NACE 52) is presented in Table V.1.4.

Table V.1.4 Domestic trading enterprises and foreign owned enterprises with 100 or more employees (NACE 52, data from 1st - 4th quarters)

		2005	2006	Change in %	Share in the total in %	
				06/05	2005	2006
Number of active units	Total	190	194	2.3	100.0	100.0
	Domestic	126	120	-4.4	66.3	61.9
	Multinational	64	74	15.6	33.7	38.1
Number of employees (thousand people)	Total	106.3	110.6	4.0	100.0	100.0
	Domestic	35.9	35.4	-1.3	33.7	32.0
	Multinational	70.4	75.2	6.7	66.3	68.0
Revenues from sold goods, cu. p. without VAT, billi. CZK	Total	296.6	326.7	10.2	100.0	100.0
	Domestic	63.9	61.5	-3.7	21.5	18.8
	Multinational	232.7	265.2	14.0	78.5	81.2
Average number of employees per enterprise	Domestic	285	294	3.3	x	x
	Multinational	1101	1016	-7.7	x	x
Revenue from sold goods per employee (in million CZK)	Domestic	1.78	1.74	-2.4	x	x
	Multinational	3.30	3.53	6.8	x	x
Trade margin in %	Domestic	20.6	22.4	x	x	x
	Multinational	21.7	22.8	x	x	x

Source: CZSO

The expansion of foreign owned enterprises in retail trading is characterised mainly by **high dynamics in revenue growth, increased number of employees, and increasing labour productivity**.

The fight for market shares within the retail market has been continuing

The concentration of **the retail market** has been continuing. The ten biggest trading enterprises increased their retail market share year-on-year by 10 p.p. to 63%. The market shares of retail chains thus got closer to the standard European level. This has happened, inter alia, thanks to **the competition** in between foreign owned chains and the resulting Czech retail market leaving of enterprises like **Julius Meinl, Carrefour, and Edeka** in the years 2005 and 2006 and the sales of their chains to Ahold and Tesco. Another company is leaving the market in this year - the Belgian company **Delhaize** operating the **Delvita network**. The consolidation of this market segment is going to continue. Activities by retail chains could be now expected in smaller cities with about 5 000 residents, where there is still some space for their expansion. **Hypermarkets and discount shops** have been the most successful trading formats with customers, but **specialised kinds of shops** are becoming successful in some categories, thanks to the diversification of the customers' behaviour. These kinds of shops address more sophisticated customers.

In order to maintain competitiveness, smaller and medium size retail enterprises have started **co-operating in association networks** (alliances, co-operatives, and franchises). These processes create prerequisites for their position maintenance on the market in the competition with the retail trading chains.

V.2 Final household consumption

The highest growth in retail sales since 1997

The situation in the consumer demands within the internal market has been characterised by the development in the revenues in constant prices in retail, including products for motorists (NACEs 50 and 52). Overall, the revenues **increased year-on-year by 6.4%**²¹ in 2006, when **the retail revenues increased by 6.5% and the revenues of the automotive segment by 6.3%**. This has been the biggest growth since 1997 (the beginning of the compatible time line). More detailed numerical data are presented in Table V.2.1. When compared with other EU countries, the results of the retail trade could be called the above average ones, as the year-on-year growth in retail revenues was 3.3% in EU-25.

Table V.2.1 Development in revenues from retail, including the automotive segment (NACEs 50 and 52, the year-on-year changes in %, constant prices, including DPH - VAT)

	2002	2003	2004	2005	2006				
					1st Q	2nd Q	3rd Q	4th Q	Year
Retail, motor vehicles and fuels (NACEs 50 and 52)	3.0	4.9	2.5	4.0	6.9	6.1	6.1	6.5	6.4
- Retail (NACE 52)	3.2	4.0	3.0	3.8	6.9	7.2	5.9	6.1	6.5
- Automotive segment (NACE 50)	2.4	6.9	1.5	4.3	7.1	4.1	6.8	7.4	6.3
thereof: Motor vehicles (NACEs 50.1 - 50.4)	-1.0	5.6	0.9	4.9	10.7	2.4	9.0	7.7	7.1
Fuels (NACE 50.5)	8.9	9.1	2.6	3.4	1.1	7.4	3.5	7.0	4.8

Source: CZSO (monthly surveys)

Revenues in all assortment areas have been increasing in a long term

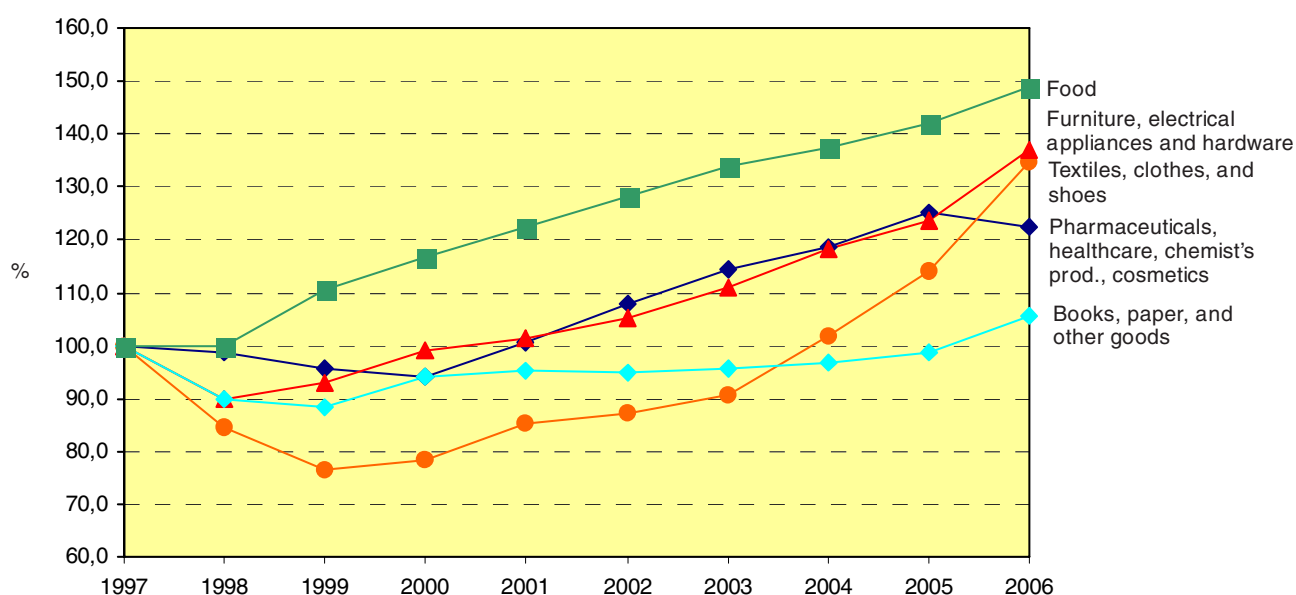
The development in **sales of individual assortment kinds** since 1997 is presented by Graph V.2.1. It clearly shows that **the decline in purchase power** in 1997 reflected in the development in revenues of individual assortment kinds in **different way**. **Sales of food started to grow again regularly**, after one year stagnation, and **the growth in revenues** related to the assortment „**furniture, electrical and hardware goods**“ **renewed fast**. The same happened in the area of „**pharmaceuticals, healthcare equipment, cosmetics, and chemist's goods**“. Revenues from „**textiles, clothes, and shoes**“, which reported the **highest fall in revenues** started **to grow significantly only during the last three years**. The long-term stagnation in sales of „**books and paper goods**“ was overcome only in 2006. The pace of growth was increased in 2006 in all assortment kinds, with the exception of „**pharmaceuticals, healthcare equipment, cosmetics, and chemist's goods**“.

The record-breaking growth in revenues in 2006 was mainly

In 2006, the volume of sales of **inedible assortments** increased by 7.7%, while the year-on-year acceleration was 3.5 p.p. The year-on-year growth in revenues was reported by **the sales of textiles, clothes, shoes, and leather goods** (by 17.9%)

²¹ The source of the information is the monthly survey of revenue indices (including DPH - VAT) organised by CZSO and published in the form of Fast Information. The numerical values in these surveys could differ from quarterly revenue surveys, when accumulated.

Graph V.2.1 Development in retail revenue by assortment since 1997
(NACE 52.1 - 52.4, constant prices, including DPH - VAT, the year 1997 = 100)



Source: CZSO, MIT graph

and by **the sales of furniture, electrical appliances, and electronics** (by 11.0%) and by **the sales of books and paper goods** (by 6.8%). Revenues decreased in the **sales of pharmaceuticals, cosmetics, chemist's goods, and medicine** (by 2.2%). **Apart from demands, the revenues of individual assortment kinds** were also influenced by the price development (**the price deflator** decreased year-on-year in the case of textiles, clothes, shoes, and leather goods down to 94.3% and in the case of furniture, electrical appliances, and electronics down to 97.9%). **Decreased prices of fuels** in the 2nd half-year (the value of the price deflator 100.4% to 109.8% in the 1st half-year) significantly helped in the year-on-year revenue increases, in constant prices, by 4.8%. The volume of sales increased year-on-year by 4.8% in retail shops **with the prevalence of the food assortment**. The pace of growth thus increased by 1.4 p.p., when compared with the same period in the previous year.

Growth in sales of industrial (other than food) goods reflected in **the better standard of household equipment**. The review of the development in household equipment, related to long-lasting items, within the period of ten years (see Table V.2.2) informs not only about products, which are progressively replaced with the in price accessible products of higher technological standard or of a higher use value (e.g. the replacement of black and white TV sets, the decrease in the number of fixed telephone lines), but also about products and areas, where we can expect **massive spread increases** (e.g. personal computers, the area of the Internet, or video technology).

Changes in eating habits of households after the year 1990 and their impact on the development in the consumption of selected kinds of food per resident have been significant (see Graph V.2.2). It has been clear that the stressing of a healthy life style, together with the price development, influenced the structure of food consumption. The biggest decrease (more than 60%) took place in **the consumption of beef** (high prices and population worry of BSE). Significant decreases took place also in the consumption of butter, eggs, and pork. In contrast, the biggest consumption increases (by more than 155%) took place in the case of **non alcoholic drinks, fruits, poultry, cheeses, and vegetable fats** as the representatives of healthy nutrition.

supported by textiles, shoes, furniture, and electric appliances

Household equipment is improving

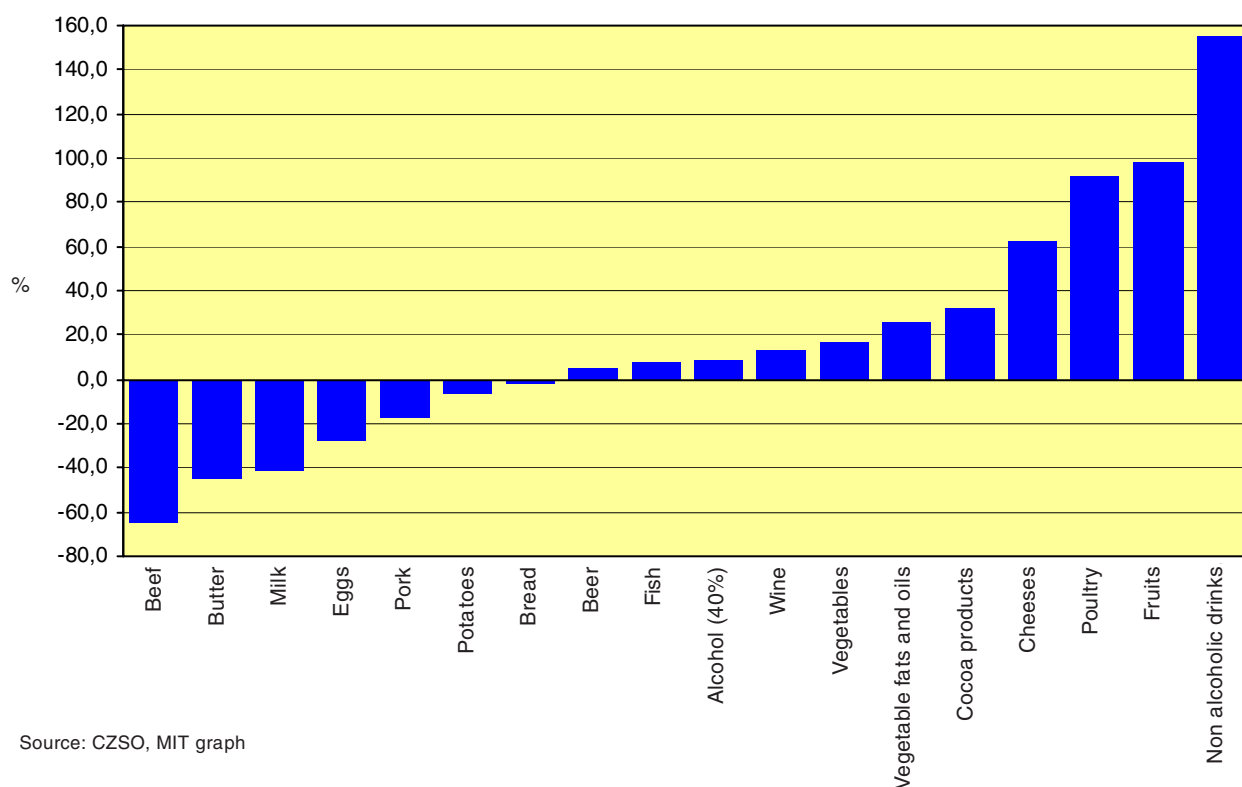
The structure of food consumption has changed

Table V.2.2 Household long-lasting equipment (number of items in 100 households)

	1995	1997	1999	2001	2003	2005
Dishwasher	-	-	4.3	7.9	11.8	14.5
Microwave oven	10.8	20.4	38.5	50.6	59.7	66.4
B&W TV set	42.2	36.4	16.4	11.0	7.9	5.4
Colour TV set	93.0	103.8	111.2	116.2	122.4	127.4
Video recorder	24.7	32.3	42.9	50.8	58.3	60.7
Hi-Fi set	11.3	18.1	28.9	36.3	41.4	43.2
CD player	5.1	7.0	11.5	17.9	28.3	39.7
Video camera	-	-	4.5	7.9	9.2	11.2
Personal computer	7.4	11.5	17.5	25.2	34.2	41.9
Fixed telephone set	44.0	58.7	76.9	76.0	72.4	55.2
Mobile telephone set	-	-	10.9	74.4	122.1	148.6
Internet	-	-	-	5.8	11.0	16.9
Cable TV	-	-	21.1	27.0	27.1	23.8
Car	54.4	59.0	62.8	66.4	68.3	69.3

Source: CZSO

**Graph V.2.2 Development in consumption of selected foods after 1990
(the average consumption per resident, the consumption in 1990 = 100%)**



Source: CZSO, MIT graph

Disposable income increased...

The market consumption has been not only the reflection of the development in incomes and in household purchase power, but also of the consumers' mood and expectations. These factors influenced growing revenues in the positive way in 2006. **Current incomes** within the household sector increased year-on-year by 6.2% and reached CZK 2 396.8 billion. The pace of growth was higher by 1.6 p.p., when compared with 2005. The biggest part of household incomes was made up by **wages and salaries** (42.3%), **incomes from enterprising activities** (19.2%), and **social allowances** (15.7%). **Current expenditures** (mostly taxes and insurance contributions) increased year-on-year by 7.0% and reached CZK 780.5 billion.

The pace of their growth was faster year-on-year by 2.4 p.p. After the coverage of these expenditures, households kept the so-called **disposable income** determined either for the coverage of final consumption or for the creation of savings. The disposable income increased year-on-year by CZK 88.4 billion and reached the volume of CZK 1 616.3 billion. This was the year-on-year rise by 5.8%, by 3.4% in real terms.

... however, household consumption grew even more and the savings lowered

Household consumption has been recently growing faster than their disposable incomes and that reflected in lower **creation of savings**. This applied also in 2006, when **the household consumption** increased year-on-year by CZK 101.5 billion, i.e. by 7.0% in current prices (by 4.6% in constant prices). **Gross savings**, in current prices, thus decreased year-on-year by CZK 9.4 billion, i.e. by 10.2% down to CZK 83.2 billion. **The rate of savings** (the volume of gross savings to disposable income ratio) **decreased** year-on-year from 6.1% to 5.1%.

The share of household expenditures in retail trade had been declining for a long time

The share of housing expenditures, covering rent and payments related to supplies of power, gas, water, and other services, has been **permanently growing** within the structure of net cash household expenditures (mostly because of the increasing prices). The number of households paying off their home loans or other loans in connection with the organisation of own housing needs has been increasing (the year-on-year increases in home loans by a third). While housing expenditures made up only 10 - 15% of the net cash household expenditures in the mid 1990s, these expenditures have got now close to 25%. The share of expenditures related to telecommunication services has also grown. This reflects the fast extension of new communication technologies. These changes in the structure of household expenditures have caused the situation in which the share of expenditures related to **goods' purchases in the retail market** progressively **weaken** from 65% in 1992 to the current 55%.

The share of imported goods on the internal market has increased year-on-year

In spite of the fact that there are no direct statistical data about the origin of the goods on the consumer market, the MIT estimates allow for the assumption that the value of imported goods, which have been mostly determined with their character for the personal use, increased in 2006 faster year-on-year (by 9.7%) than the total retail revenue, including the automotive segment (6.4%). This means, according to the estimate, the year-on-year **rise in the share of goods of foreign origin** in the total sales by 1.3 p.p. to 40.6%. When compared with the previous years, this increase has become milder and this can signal the strengthening competitiveness of the domestic production on the domestic market.

ANNEX

Tables

- I. Macroeconomic indicators
- II. Industry
- III. Construction
- VI. External trade
- V. Domestic market
- VI. Financial conditions

Graphs

- Manufacturing industry by institutional sectors
- Quartile distribution of labour productivity by sectors

I. MACROECONOMIC INDICATORS

Indicator	Unit	2005	2006														2006	
			Jan.	Feb.	March	1.-3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.	Oct.	Nov.		Dec.
GDP*	bln CZK	2 970.3				737.5				1 550.7				2 364.7				3 204.1
	%	6.1				6.4				6.3				6.2				6.1
consumption of households	bln CZK	1 454.4				358.3				743.3				1 146.7				1 555.9
	%	2.8				4.1				4.2				4.2				4.6
consumption of government	bln CZK	663.1				157.2				326.2				493.1				691.7
	%	1.0				2.4				0.1				-0.5				0.3
consumption of non-profit institutions	bln CZK	19.3				5.1				10.4				15.6				21.4
	%	3.6				4.5				5.0				5.2				4.7
gross fixed capital formation	bln CZK	740.9				180.0				385.3				590.3				803.0
	%	1.3				6.8				6.9				7.2				7.3
changes in stocks and reserves	bln CZK	35.7				10.0				47.8				69.8				75.4
exports of goods and services	bln CZK	2 130.6				570.8				1 165.1				1 753.1				2 413.3
	%	10.4				18.4				14.5				13.5				14.6
imports of goods and services	bln CZK	2 073.7				543.9				1 127.3				1 704.0				2 356.4
	%	4.8				16.4				13.7				12.7				14.2
trade balance	bln CZK	56.9				26.9				37.8				49.1				56.8
Inflation rate (annual rolling average)	%	2.0	2.1	2.2	-	2.3	2.4	2.5	-	2.6	2.7	2.8	-	2.7	2.6	2.5	-	
Consumer prices																		
Total	%	1.9	2.9	2.8	2.8	2.8	2.8	3.1	2.8	2.9	2.9	3.1	2.7	2.9	1.3	1.5	1.7	2.5
Including:																		
food and non-alcoholic beverages	%	-0.3	-0.5	-0.7	-0.7	-0.6	-0.4	-0.3	0.9	-0.3	2.4	2.6	2.6	0.6	1.2	1.1	1.9	0.8
alcoholic beverages, tobacco	%	1.4	0.8	0.8	0.9	0.8	1.1	1.5	1.1	1.0	1.3	1.3	1.4	1.1	1.4	1.7	0.9	1.2
clothing and footwear	%	-5.3	-5.9	-5.9	-5.9	-5.9	-6.1	-6.2	-6.5	-6.1	-7.1	-6.2	-5.9	-6.2	-5.8	-5.4	-4.6	-6.0
housing, water, energy and other fuels	%	4.1	7.0	7.0	7.0	7.0	7.3	7.4	7.4	7.2	7.0	6.9	6.9	7.1	3.9	3.9	3.9	6.3
furnishings, households equipment and maintenance	%	-2.0	-1.7	-1.5	-1.6	-1.6	-1.4	-1.4	-1.5	-1.5	-1.4	-1.3	-1.1	-1.4	-1.1	-0.9	-0.7	-1.3
health	%	7.6	4.3	4.1	4.4	4.3	4.3	3.9	3.7	4.1	3.7	5.8	5.6	4.4	5.9	5.6	5.6	4.7
transport	%	1.4	4.4	4.8	4.2	4.5	3.1	4.2	3.2	4.0	2.5	2.6	-2.0	3.0	-3.3	-2.5	-0.7	1.6
postal services and telecommunications	%	7.6	14.7	13.2	13.2	13.5	10.9	17.2	1.4	11.5	1.8	2.3	2.8	8.2	2.9	2.9	2.9	6.8
recreation and culture	%	1.8	2.0	1.7	1.8	1.8	2.3	2.1	1.4	1.9	1.4	1.9	2.1	1.8	0.3	0.1	0.4	1.4
education	%	2.3	4.5	4.0	3.7	4.1	3.7	3.7	3.9	3.9	3.9	3.9	3.1	3.8	2.5	2.5	2.5	3.5
restaurants and hotels	%	4.6	2.7	2.5	2.4	2.5	2.4	2.6	2.7	2.5	3.1	3.3	2.5	2.7	2.3	2.4	2.6	2.6
miscellaneous goods and services	%	1.0	1.3	1.3	1.5	1.4	1.7	1.8	1.8	1.6	2.2	2.2	2.2	1.8	2.2	2.1	2.1	1.9

*bln CZK in current prices, y-o-y change in constant prices

There are some deviations in data sums, in decimal positions, thanks to the rounding

Source: Czech Statistical Office

I. MACROECONOMIC INDICATORS

(per cent, the corresponding period of previous year = 100)

Indicator	Unit	2005	2006															2006
			Jan.	Feb.	March	1.-3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.	Oct.	Nov.	Dec.	
Producer prices (annual rolling average)																		
industrial	%	5.7	2.4	1.9	1.4	-	1.0	0.8	0.7	-	0.8	0.9	1.0	-	1.2	1.3	1.6	-
construction work	%	3.7	2.8	2.7	2.5	-	2.4	2.5	2.5	-	2.6	2.7	2.7	-	2.7	2.8	2.9	-
agricultural	%	-2.1	-9.1	-8.5	-7.6	-	-6.5	-5.3	-4.3	-	-3.1	-1.7	-0.7	-	0.2	1.3	2.2	-
Producer prices																		
industrial	%	3.0	0.3	0.3	0.3	0.3	0.5	1.5	1.8	0.8	2.4	2.7	2.4	1.4	1.9	2.0	2.6	1.6
construction work	%	3.0	2.5	2.4	2.3	2.4	2.4	2.8	2.9	2.6	3.2	3.3	3.1	2.7	3.2	3.1	3.2	2.9
agricultural	%	-9.2	-3.0	-1.7	0.3	-1.5	2.6	2.6	8.8	1.5	1.4	2.4	4.2	2.0	1.9	1.3	4.9	2.2
Rate of unemployment (end of period)	%		9.2	9.1	8.8		8.3	7.9	7.7		7.9	7.9	7.8		7.4	7.3	7.7	
Real money income of households	%	2.9				3.7				3.4				3.1				3.4
Nominal wages ^{x/}	%	5.4				7.1				6.9				6.6				6.5
Real wages ^{x/}	%	3.4				4.2				3.9				3.6				3.9
State budget balance (end of period)	bln CZK	-56.3	3.4	-4.0	16.3	15.8	-35.7	7.8	19.8	7.6	-8.1	-6.0	7.9	1.5	-14.2	-18.3	-66.7	-97.6

x) including estimate of small organisations

Source: Czech Statistical Office, Ministry of Finance, Ministry of Labour and Social Affairs, Czech National Bank

I. MACROECONOMIC INDICATORS

(per cent, the corresponding period of previous year = 100)

Indicator	Unit	2005	2006															2006
			Jan.	Feb.	March	1.-3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.	Oct.	Nov.	Dec.	
Monetary supply M2	bln CZK	1 992,1	1 989,6	2 002,2	2 008,8		2 049,3	2 061,5	2 073,2		2 073,2	2099,7	2094,9		2124,4	2142,4	2188,6	
(increase to December of previous year)	%	8.0	-0.1	0.5	0.8		2.9	3.5	4.1		4.1	5.4	5.2		6.6	7.5	9.9	
Deposits	bln CZK	1 653.5	1 750.3	1 768.1	1 812.4		1 823.4	1 830.0	1 872.9		1 876.3	1877.7	1899.9		1877.6	1882.7	1807.2	
(increase to December of previous year)	%	4.4	5.9	6.9	9.6		10.3	10.7	13.3		13.5	13.6	14.9		13.6	13.9	9.3	
households	bln CZK	944.4	953.6	959.2	962.2		984.6	984.8	989.9		995.6	998.5	997.0		1000.5	1004.3	1026.3	
	%	6.2	1.0	1.5	1.9		4.2	4.3	4.8		5.4	5.7	5.6		5.9	6.3	8.7	
enterprises	bln CZK	708.9	796.7	808.9	850.2		838.8	845.3	883.0		880.7	879.3	903.0		877.1	878.4	781.0	
	%	2.1	12.4	14.1	19.9		18.3	19.2	24.6		24.2	24.0	27.4		23.7	23.9	10.2	
Credits (CZK without NPF*)	bln CZK	1 026.0	1 034.8	1 050.6	1 058.8		1 074.0	1 089.8	1 110.9		1 126.2	1144.6	1163.0		1177.7	1199.1	1221.6	
(increase to December of previous year)	%	11.6	0.9	2.4	3.2		4.7	6.2	8.3		9.8	11.6	13.3		14.8	16.9	19.1	
households	bln CZK	378.9	384.0	389.3	398.3		405.2	415.8	426.8		436.4	446.8	457.4		468.7	480.0	494.4	
	%	33.9	1.3	2.7	5.1		6.9	9.7	12.6		15.2	17.9	20.7		23.7	26.7	30.5	
enterprises	bln CZK	647.1	650.8	661.3	660.5		668.8	674.0	684.1		689.8	697.8	705.5		709.0	719.1	727.1	
	%	1.6	0.6	2.2	2.1		3.3	4.2	5.7		6.6	7.8	9.0		9.6	11.1	12.4	
Balance of payments																		
Current account	mil. USD	-3 218.4				288.5				-1 710.1				-3 645.0			-5 916.4	
Trade balance	mil. USD	1 612.9				1 090.5				1 435.6				1 650.9			1 963.6	
Balance of services	mil. USD	847.8				46.6				197.6				495.9			553.4	
Balance of incomes	mil. USD	-6 501.9				-859.8				-3 266.6				-5 592.2			-8 113.2	
Financial account	mil. USD	6 462.9				-438.4				849.1				2 926.7			4 936.6	
Direct investment	mil. USD	11 677.1				544.7				1 483.5				3 267.0			4 613.5	
FDI in the Czech Republic	mil. USD	11 658.3				650.7				2 273.8				4 248.2			5 956.8	
Portfolio investment	mil. USD	-3 392.7				-339.9				-1 902.9				-2 475.2			-1 189.0	
Long-term capital	mil. USD	1 364.8				143.9				641.5				1 093.3			1 991.9	
Short-term capital	mil. USD	-3 069.4				-719.3				600.8				1 100.0			-200.1	
International reserves of the CNB	bln. USD	29.6	29.8	29.6	29.7		30.3	30.8	30.4		30.7	30.9	30.8		30.8	31.6	31.5	
External debt	bln. USD	46.5			46.7				51.7				53.1				58.3	

Source: Czech National Bank

I. MACROECONOMIC INDICATORS

Structure of registered job applicants (31 December)

	2005		2006		Change 2006-2005	
	Total	% of total	Total	% of total	Total	% of total
Age groups:						
Up to 24 let	96 530	18.9	78 480	17.5	-18 050	-1.4
Including: up to 19 let	27 092	5.3	22 464	5.0	-4 628	-0.3
25-34	124 842	24.4	107 757	24.0	-17 085	-0.4
35-49	160 638	31.5	140 699	31.4	-19 939	-0.1
50 and over	128 406	25.2	121 609	27.1	-6 797	1.9
Education:						
No education	3 251	0.6	3 028	0.7	-223	0.1
Basic	153 249	30.0	137 891	30.7	-15 358	0.7
Secondary vocational and						
Secondary (without GCSE*)	226 304	44.3	194 459	43.3	-31 845	-1.0
Secondary vocational and						
Secondary (with GCSE*)	107 650	21.1	95 079	21.2	-12 571	0.1
Higher	2 860	0.6	2 506	0.6	-354	0.0
University	17 102	3.4	15 582	3.5	-1 520	0.1
Duration of unemployment:						
Up to 3 month	130 938	25.6	119 809	26.7	-11 129	1.1
Over 3 months to 6	86 618	17.0	73 972	16.5	-12 646	-0.5
Over 6 months to 12	80 056	15.7	69 855	15.6	-10 201	-0.1
Over 12 months	212 804	41.7	184 909	41.2	-27 895	-0.5
Total Czech republic	510 416	100.0	448 545	100.0	-61 871	0.0

*GCSE - the General Certificate of Secondary Education

Unemployment by region

Region	on 31. 12. 2005			on 31. 12. 2006		
	Number of registered job applicants	Number of vacancies	Rate of unemployment %	Number of registered job applicants	Number of vacancies	Rate of unemployment %
- Praha	24 571	11 119	3.2	21 364	16 192	2.7
- Středočeský	40 751	7 064	6.3	35 498	12 478	5.3
- Jihočeský	23 632	2 636	6.7	20 426	5 222	5.7
- Plzeňský	20 500	3 940	6.4	17 959	7 214	5.6
- Karlovarský	18 017	1 206	10.3	16 221	2 354	9.2
- Ústecký	70 532	2 710	15.4	63 652	5 003	13.8
- Liberecký	18 923	2 425	7.7	17 258	3 648	7.0
- Královéhradecký	21 989	2 731	7.3	19 298	4 413	6.3
- Pardubický	22 782	2 364	8.3	19 369	7 296	6.9
- Vysočina	22 814	1 913	8.2	20 060	4 071	7.1
- Jihomoravský	63 692	5 834	10.2	55 230	7 990	8.8
- Olomoucký	36 180	2 849	10.6	31 187	4 537	9.0
- Zlínský	29 505	2 067	9.3	25 601	5 111	7.8
- Moravskoslezský	96 528	3 306	14.2	85 422	7 896	12.6
Total Czech republic	510 416	52 164	8.9	448 545	93 425	7.7

Source: Ministry of Labour and Social Affairs

I. MACROECONOMIC INDICATORS

Comparison of producers' price development in the Czech Republic and European Union (y/y change in %)

	2001	2002	2003	2004	2005	2006											
	Aver.	Aver.	Aver.	Aver.	Aver.	1	2	3	4	5	6	7	8	9	10	11	12
Czech Rep.	0.8	-0.7	0.9	7.7	-0.4	0.4	0.4	0.3	0.5	1.5	1.9	2.4	2.7	2.3	1.9	2.0	2.6
Euro area	-0.7	1.3	0.9	3.6	4.7	5.3	5.4	5.1	5.5	6.0	5.8	6.0	5.7	4.6	4.0	4.3	4.1
EU 25	-0.7	1.4	1.2	4.4	6.7	7.0	6.9	6.4	6.4	6.8	6.4	6.6	6.2	5.0	4.3	4.0	3.4
Belgium	-1.7	2.6	-0.2	6.2	1.5	1.9	2.5	3.4	4.4	4.9	5.7	5.9	5.8	6.2	5.9	6.2	5.3
Germany	0.1	0.6	1.8	2.9	5.2	5.6	5.9	5.9	6.1	6.2	6.1	6.0	5.9	5.1	4.6	4.7	4.4
Greece	1.3	3.3	2.0	3.0	9.1	9.9	9.5	8.3	8.7	9.3	7.9	8.3	7.7	4.6	3.0	3.4	2.7
Spain	-0.9	2.0	1.1	5.0	5.2	6.3	6.3	5.8	5.7	6.6	6.3	6.4	5.7	4.2	3.4	3.6	3.6
Ireland	0.5	3.2	-0.7	1.1	3.3	3.3	3.4	3.2	2.2	2.0	2.0	1.4	1.8	1.6	0.5	0.2	0.5
Hungary	3.7	3.5	7.6	7.1	7.2	6.6	6.0	6.1	6.3	6.9	7.7	8.7	11.1	11.4	10.6	9.4	9.2
Austria	-2.3	0.0	0.3	2.5	3.3	2.8	2.1	2.0	2.1	3.0	2.3	2.2	2.2	1.6	1.1	2.2	1.9
Poland	1.6	0.8	2.3	7.9	0.4	0.3	0.7	0.7	2.2	2.9	3.0	3.8	4.0	3.6	3.2	3.0	3.1
Portugal	0.6	1.3	0.0	4.7	4.0	5.2	5.7	5.1	5.1	5.9	6.0	4.9	4.9	4.3	2.7	3.3	3.4
Slovenia	7.5	3.7	2.1	5.0	1.8	1.3	1.6	2.0	2.0	2.4	2.7	3.0	2.5	2.8	2.7	2.6	2.9
Slovakia	2.2	2.3	8.7	4.3	7.0	8.7	9.8	9.9	9.8	9.9	9.1	9.0	8.8	7.5	7.1	5.6	5.4
Finland	-1.4	0.0	0.3	-0.8	3.2	3.4	3.7	4.3	4.8	5.5	5.1	5.6	6.0	6.1	5.9	6.1	5.9
Sweden	1.2	5.4	-1.1	3.1	5.4	5.8	5.5	5.5	5.5	5.7	6.2	6.3	7.1	6.3	6.3	5.8	4.5

Source: Eurostat

I. MACROECONOMIC INDICATORS

Comparison of consumer price development in the Czech Republic, European Union and the USA (y/y change in %, based on harmonized indices)

	2001	2002	2003	2004	2005	2006												
	aver.	aver.	aver.	aver.	aver.	1	2	3	4	5	6	7	8	9	10	11	12	průměr
Czech Rep.	4.6	1.4	-0.1	2.6	1.6	2.4	2.4	2.4	2.3	2.8	2.3	2.4	2.6	2.2	0.8	1.0	1.5	2.1
Euro area	2.3	2.3	2.1	2.1	2.2	2.4	2.3	2.2	2.5	2.5	2.5	2.4	2.3	1.7	1.6	1.9	1.9	2.2
EU 25	x	x	1.9	2.1	2.2	2.3	2.2	2.1	2.3	2.4	2.4	2.4	2.3	1.9	1.8	2.1	2.2	2.2
EU 15	x	2.1	2.0	2.0	2.1	2.3	2.2	2.1	2.4	2.4	2.5	2.4	2.3	1.8	1.7	2.0	2.1	2.2
Belgium	2.4	1.6	1.5	1.9	2.5	2.8	2.8	2.2	2.6	2.8	2.5	2.4	2.3	1.9	1.7	2.0	2.1	2.3
Ireland	4.0	4.7	4.0	2.3	2.2	2.5	2.7	2.8	2.7	3.0	2.9	2.9	3.2	2.2	2.2	2.4	3.0	2.7
Hungary	9.1	5.2	4.7	6.8	3.5	2.5	2.3	2.4	2.4	2.9	2.9	3.2	4.7	5.9	6.3	6.4	6.6	4.0
Germany	1.9	1.3	1.0	1.8	1.9	2.1	2.1	1.9	2.3	2.1	2.0	2.1	1.8	1.0	1.1	1.5	1.4	1.8
Poland	5.3	1.9	0.7	3.6	2.2	0.9	0.9	0.9	1.2	1.5	1.5	1.4	1.7	1.4	1.1	1.3	1.4	1.3
Portugal	4.4	3.7	3.3	2.5	2.1	2.6	3.0	3.8	3.7	3.7	3.5	3.0	2.7	3.0	2.6	2.4	2.5	3.0
Austria	2.3	1.7	1.3	2.0	2.1	1.5	1.5	1.3	2.1	2.1	1.9	2.0	2.1	1.3	1.3	1.6	1.6	1.7
Finland	2.7	2.0	1.3	0.1	0.8	1.2	1.3	1.2	1.5	1.7	1.5	1.4	1.3	0.8	0.9	1.3	1.2	1.3
Sweden	2.7	2.0	2.3	1.0	0.8	1.1	1.1	1.5	1.8	1.9	1.9	1.8	1.6	1.2	1.2	1.5	1.4	1.5
Latvia	2.5	2.0	2.9	6.2	6.9	7.6	7.0	6.6	6.1	7.1	6.3	6.9	6.8	5.9	5.6	6.3	6.8	6.6
Greece	3.7	3.9	3.4	3.0	3.5	3.0	3.1	3.3	3.5	3.3	3.4	3.9	3.4	3.1	3.1	3.2	3.2	3.3
Slovakia	7.2	3.5	8.5	7.4	2.8	4.1	4.3	4.3	4.4	4.8	4.5	5.0	5.0	4.5	3.1	3.7	3.7	4.3
Slovenia	8.6	7.5	5.7	3.6	2.5	2.6	2.3	2.0	2.8	3.4	3.0	1.9	3.1	2.5	1.5	2.4	3.0	2.5
Spain	2.8	3.6	3.1	3.1	3.4	4.2	4.1	3.9	3.9	4.1	4.0	4.0	3.8	2.9	2.6	2.7	2.7	3.6
USA	2.8	1.6	2.3	2.7	3.4	4.0	3.6	3.4	3.5	4.2	4.3	4.1	3.8	2.1	1.3	2.0	2.5	3.2

Source: Eurostat, BLS USA

Note: Harmonized indices of consumer prices (HICP) are comparable with those of consumer prices indices of EU member countries, but they do not replace them. The difference with the national indices is in the structure and the weights of the consumer basket, when in HICP the sales to foreigners are included and hypothetical rents not.

I. MACROECONOMIC INDICATORS

Price index of industrial producers in 1993 to 2005 (y/y change in %)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Industry as a whole	13.1	5.3	7.6	4.8	4.9	4.9	1.0	4.9	2.9	-0.5	-0.3	5.7	3.0	1.6
C Products from mining and quarrying	10.1	0.1	2.1	4.2	8.2	6.1	6.5	-3.7	2.0	0.4	0.6	4.1	13.4	0.0
CA Coal and lignite, peat	8.7	-2.5	0.6	4.0	7.6	5.6	6.9	-4.6	2.1	-0.3	0.3	5.5	17.3	-0.7
CB Other mining and quarrying products	20.6	18.4	11.3	6.0	11.5	9.0	4.8	1.5	1.2	2.5	1.6	0.1	1.3	2.1
D Manufactured products	14.1	5.4	8.4	4.9	4.8	4.5	0.1	5.7	2.6	-1.3	-0.3	6.0	2.0	0.7
DA Food products, beverages and tobacco	18.0	5.6	6.6	8.6	7.7	5.7	-2.9	3.4	6.3	-1.0	-1.1	4.8	-1.1	-1.4
DB Textiles and textile products	14.1	4.4	6.2	4.4	4.1	5.7	1.8	0.8	2.7	-1.4	-1.0	0.3	-0.8	0.2
DC Leather and leather products	5.0	1.4	11.8	4.1	1.9	6.3	2.4	-0.1	3.7	2.0	0.1	-0.3	1.4	0.4
DD Wood and wood products	14.8	4.1	14.3	4.8	6.0	6.8	-0.1	0.6	0.0	1.7	0.8	1.1	1.6	2.3
DE Pulp, paper, paper products, printing	1.1	3.2	23.0	-1.5	-4.8	5.8	-0.5	11.5	3.8	-1.7	-1.0	0.0	-0.1	0.4
DF Coke, refined petroleum products	48.4	-2.3	-0.8	6.2	14.5	-11.1	12.6	50.0	-10.7	-13.4	2.6	27.0	16.4	7.7
DG Chemicals, chem. products, man-made fib.	5.6	3.0	16.3	-0.5	4.2	-0.2	0.1	14.9	0.6	-4.5	1.4	6.7	3.2	4.3
DH Rubber and plastic products	9.2	5.7	12.2	6.4	3.9	4.9	0.6	3.4	1.0	-1.8	-2.7	-0.2	0.7	0.3
DI Other non metallic mineral products	21.5	5.5	6.3	7.4	6.3	7.3	4.7	2.8	4.4	2.5	-0.9	1.0	0.7	1.4
DJ Basic metals and fabricated metal prod.	7.6	4.5	9.8	3.1	3.5	8.5	-3.1	2.2	2.5	-2.6	-0.1	18.5	6.8	-0.7
DK Machinery and equipment n.e.c.	15.4	11.7	6.2	7.5	5.2	4.7	2.1	1.6	1.6	1.7	0.4	1.5	2.8	1.7
DL Electrical and optical equipment	16.4	6.4	6.0	3.5	5.1	3.5	2.2	3.0	1.4	-0.3	-0.6	-0.5	-0.9	2.1
DM Transport equipment	11.3	7.8	5.9	5.4	1.8	3.3	0.1	1.0	4.9	0.7	-0.3	-0.3	-2.1	-1.3
DN Other manufactured goods n.e.c.	10.2	13.5	8.1	2.3	2.5	2.9	2.3	4.2	3.9	1.0	3.7	9.5	0.7	1.8
E Electrical energy, gas, steam and hot water	4.2	8.4	2.9	3.8	4.2	6.7	5.3	4.2	5.4	4.6	-0.7	3.9	7.2	7.5

Source: Czech Statistical Office

II. INDUSTRY

(y-o-y change, the corresponding period of previous year = 100, firms with 20 or more employees)

Indicator	Unit	2005	2006															2006	
			Jan.	Feb.	March	1. - 3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.	Oct.	Nov.	Dec.		
Industrial production index	%	6.7	15.9	12.2	17.9	15.4	3.6	12.2	10.5	11.9	11.8	7.7	5.8	10.5	12.6	7.6	3.0	9.7	
Sales from industrial activities	curr. pr.	bln CZK	2 573.1	220.8	213.7	250.2	685.2	218.5	243.0	248.7	1 395.8	213.6	218.0	245.9	2 071.5	263.1	269.6	228.8	2 829.8
		%	8.0	15.0	10.3	16.4	14.0	2.1	11.9	10.3	11.0	12.2	8.2	7.0	10.2	14.2	9.7	5.9	10.0
	const. pr.	bln CZK	2 515.0	217.0	209.6	247.8	675.0	214.8	239.2	245.5	137.5	208.6	211.1	240.9	2 032.5	257.3	263.9	222.8	2 773.5
		%	8.1	17.1	11.9	18.9	16.2	3.4	12.8	10.8	12.5	12.2	6.9	6.1	10.9	13.7	8.8	4.9	10.3
Average number of employees	th. pers.	1 129	1 139	1 145	1 151	1 145	1 143	1 144	1 142	1 141	1 144	1 147	1 143	1 141	1 149	1 149	1 143	1 140	
	%	-0.1	2.5	2.4	2.4	2.4	1.7	1.8	1.5	1.8	1.2	1.4	1.2	1.5	0.7	0.2	0.3	1.0	
Aver. month. sales per employee	const. pr.	th. CZK	185.6	190.5	183.1	215.3	196.5	187.9	219.8	214.9	200.8	182.4	184.1	210.8	197.9	223.9	229.7	195.0	202.8
		%	8.2	14.3	9.3	16.6	13.4	1.6	10.9	9.1	10.4	10.8	5.4	4.8	9.2	12.9	8.6	4.6	9.2
Average monthly wage		CZK	18 279	17 992	17 299	18 766	18 016	18 523	20 089	19 661	18 742	19 281	19 054	18 758	18 845	19 615	22 754	20 699	19 400
		%	4.6	6.2	6.0	6.2	6.1	5.1	8.0	5.9	6.3	5.7	5.5	4.5	6.0	7.6	5.9	5.0	6.0

Source: Czech Statistical Office

II. INDUSTRY (firms with 20 or more employees)

NACE Division	Average number of firms	Sales from indust. activity mill. CZK					Non-domestic sales				
		curr. pr.	const. pr.	y-o-y change		Share total=100	const. pr.	y-o-y change		Sh.*) con.p. total=100	Share**) const. pr
				curr. pr.	const. pr.			curr. pr.	const. pr.		
10 mining of coal and lignite.extraction of peat	21	53 509	42 120	7.6	9.5	1.9	8 931	152.0	164.5	0.3	21.2
CA Mining and quarr. of energy producing	25	58 373	46 089	7.4	9.2	2.1	9 451	142.8	153.5	0.3	20.5
CB Mining and quarr. exc. energy produc. mater.	71	13 534	12 774	15.8	14.8	0.5	2 513	10.7	15.4	0.1	19.7
C Mining and quarrying	96	71 907	58 863	8.9	10.4	2.5	11 964	103.5	102.5	0.4	20.3
15 food products and beverages	1 004	229 056	215 603	1.5	2.2	8.1	39 343	6.1	10.1	1.4	18.2
16 tobacco products	3	7 827	8 852	-34.2	-23.5	0.3	2 034	-36.2	-28.5	0.1	23.0
DA Food products, beverages and tobacco	1 007	236 884	224 455	-0.3	0.9	8.4	41 378	2.6	7.2	1.5	18.4
17 textiles	299	45 041	47 480	0.7	2.2	1.6	32 230	5.1	8.1	1.2	67.9
18 wearing apparel, dressing, dyeing of fur	279	9 665	9 967	-20.1	-20.4	0.3	7 610	-28.4	-28.2	0.3	76.4
DB Textiles and textile products	578	54 706	57 447	-3.7	-2.6	1.9	39 840	-3.1	-1.4	1.4	69.4
DC Leather and leather products	98	4 705	4 334	6.2	5.6	0.2	2 081	8.0	7.3	0.1	48.0
DD Wood and wood products	403	49 752	49 836	15.5	13.3	1.8	27 640	11.7	10.6	1.0	55.5
21 pulp, paper and pap. products	129	48 619	56 951	0.4	1.5	1.7	32 737	-3.6	-1.6	1.2	57.5
22 publishing, printing and reprod. of rec. media	288	44 266	40 959	-2.1	-3.3	1.6	6 591	14.6	8.6	0.2	16.1
DE Pulp, paper and pap. products, publis. printing	417	92 886	97 911	-0.8	-0.6	3.3	39 328	-0.3	0.0	1.4	40.2
DF Coke, refined petroleum	5	71 072	55 853	2.5	-3.6	2.5	9 746	3.2	6.1	0.4	17.4
DG Chemic., chem. prod. and man-made fibres	216	141 615	134 843	2.5	-1.2	5.0	76 973	2.1	-1.1	2.8	57.1
DH Rubber and plastic products	613	167 695	182 197	12.8	14.6	5.9	94 621	9.4	13.6	3.4	51.9
DI Other non-metallic mineral products	391	118 585	117 228	2.2	2.1	4.2	56 439	4.0	7.7	2.0	48.1
27 basic metals	164	207 370	158 515	9.4	9.5	7.3	56 772	16.0	11.2	2.0	35.8
28 fabric. metal prod., except machin. and equip.	1 335	171 623	149 973	7.8	7.8	6.1	88 816	11.7	14.6	3.2	59.2
DJ Basic metals and fabricated metal products	1 499	378 993	308 488	8.7	8.6	13.4	145 588	13.5	13.2	5.2	47.2
DK Machinery and equipment n.e.c.	1 061	229 996	222 936	18.7	18.1	8.1	152 367	21.2	22.6	5.5	68.3
30 office machinery and computers	29	105 434	127 540	16.7	19.1	3.7	54 308	-16.1	-15.1	2.0	42.6
31 electrical machinery and apparatus n.e.c.	503	157 121	160 525	14.0	10.2	5.6	116 461	13.3	10.4	4.2	72.6
32 radio, television and communic. equip .t. appar.	119	91 253	108 594	19.1	22.0	3.2	112 527	18.6	24.2	4.1	103.6
33 medic., precis. and optic. instr., watch., clocks	180	35 986	38 060	19.6	19.8	1.3	28 438	22.2	21.0	1.0	74.7
DL Electrical and optical equipment	832	389 794	434 719	16.4	16.4	13.8	311 735	8.4	9.9	11.2	56.0
34 motor vehicles, trailers and semi-trailers	248	491 951	556 387	16.6	20.4	17.4	419 019	9.5	13.9	15.7	75.3
35 other transport equipment	90	30 093	27 289	22.6	21.9	1.1	17 402	25.6	25.8	1.8	63.8
DM Transport equipment	339	522 043	583 676	16.9	20.5	18.4	436 422	10.2	14.3	15.7	74.8
36 furniture, manufacturing n.e.c.	501	67 420	68 122	0.2	1.2	2.4	46 755	-3.1	-0.2	1.7	68.6
37 recycling	62	17 899	9 248	55.9	48.0	0.6	3 366	49.8	41.9	0.1	36.4
DN Manufacturing n.e.c.	563	85 319	77 369	8.3	5.1	3.0	50 121	1.7	1.9	1.8	64.8
D Manufacturing	8 022	2 544 046	2 551 294	10.1	10.9	89.9	1 484 277	9.3	11.2	53.5	58.2
40 electricity, gas, steam and hot water supply	195	193 809	148 802	10.0	1.8	6.8	8 203	30.6	12.5	0.3	5.5
41 collection, purification and distribution of water	70	19 994	14 502	4.4	1.0	0.7	23	6.1	2.6	0.0	0.2
E Electricity, gas and water supply	266	213 804	163 305	9.4	1.7	7.6	8 226	30.5	12.4	0.3	5.0
Total industry	8 384	2 829 756	2 773 462	10.0	10.3	100.0	1 504 466	10.0	11.6	54.2	54.2

*) Share on sales from industrial activity total

**) Share on sales from industrial activity of section, subsection, division. Figure for division 32 was verified by CZSO.

Source: Czech Statistical Office

II. INDUSTRY (firms with 20 or more employees)

NACE Division	Avg. No. of employees			Avg. month. receipts per empl.			Average monthly wages		
	Phys. per. 2006	y-o-y change	Share total=100	CZK 2006	y-o-y. change	Level ind.=100	CZK 2006	y-o-y change	Level ind.=100
10 mining of coal and lignite.extraction of peat	33 392	-3.9	2.9	105 114	14.0	51.8	24 688	7.6	127.3
CA Mining and quarr. of energy producing	37 053	-3.7	3.3	103 656	13.4	51.1	24 540	7.6	126.5
CB Mining and quarr. exc. energy produc. mater.	5 677	2.4	0.5	187 521	12.1	92.5	22 041	8.8	113.6
C Mining and quarrying	42 730	-2.9	3.7	114 798	13.7	56.6	24 208	7.6	124.8
15 food products and beverages	105 114	-3.2	9.2	170 928	5.6	84.3	16 998	6.7	87.6
16 tobacco products	1 159	-19.2	0.1	636 319	-5.4	313.8	45 228	7.8	233.1
DA Food products, beverages and tobacco	106 273	-3.4	9.3	176 004	4.4	86.8	17 306	6.3	89.2
17 textiles	40 222	-7.2	3.5	98 370	10.1	48.5	13 671	5.1	70.5
18 wearing apparel, dressing, dyeing of fur	20 299	-13.6	1.8	40 918	-7.9	20.2	10 953	5.1	56.5
DB Textiles and textile products	60 521	-9.4	5.3	79 100	7.5	39.0	12 759	5.4	65.8
DC Leather and leather products	8 155	-4.6	0.7	44 291	10.7	21.8	12 389	7.8	63.9
DD Wood and wood products	26 737	1.1	2.3	155 327	12.0	76.6	15 690	6.6	80.9
21 pulp, paper and pap. products	17 692	0.5	1.6	268 260	1.0	132.3	19 529	7.7	100.7
22 publishing, printing and reprod. of rec. media	23 301	1.4	2.0	146 489	-4.7	72.2	22 159	1.2	114.2
DE Pulp, paper and pap. products, publis. printing	40 992	1.0	3.6	199 044	-1.6	98.2	21 024	3.8	108.4
DF Coke, refined petroleum	2 864	-3.2	0.3	1 625 391	-0.3	801.6	28 105	7.5	144.9
DG Chemic., chem. prod. and man-made fibres	36 929	-1.8	3.2	304 285	0.6	150.1	22 534	4.8	116.2
DH Rubber and plastic products	72 226	8.0	6.3	210 217	6.1	103.7	18 329	4.7	94.5
DI Other non-metallic mineral products	63 539	-2.6	5.6	153 748	4.8	75.8	20 007	7.2	103.1
27 basic metals	54 801	-0.7	4.8	241 046	10.2	118.9	21 150	6.1	109.0
28 fabric. metal prod., except machin. and equip.	110 851	7.4	9.7	112 744	0.4	55.6	18 101	2.8	93.3
DJ Basic metals and fabricated metal products	165 652	4.6	14.5	155 189	3.9	76.5	19 110	3.7	98.5
DK Machinery and equipment n.e.c.	135 053	2.6	11.8	137 561	15.2	67.8	19 848	6.5	102.3
30 office machinery and computers	8 007	8.8	0.7	1 327 325	9.5	654.6	18 668	5.5	96.2
31 electrical machinery and apparatus n.e.c.	90 278	4.0	7.9	148 177	6.0	73.1	18 084	6.9	93.2
32 radio, television and communic. equip .t. appar.	27 369	2.6	2.4	330 651	18.9	163.1	20 340	5.0	104.8
33 medic., precis. and optic. instr., watch., clocks	24 634	11.7	2.2	128 753	7.2	63.5	19 290	7.1	99.4
DL Electrical and optical equipment	150 288	5.2	13.2	241 048	10.7	118.9	18 724	6.5	96.5
34 motor vehicles, trailers and semi-trailers	104 836	4.6	9.2	442 269	15.1	218.1	22 620	5.7	116.6
35 other transport equipment	19 368	2.7	1.7	117 416	18.7	57.9	20 981	6.1	108.1
DM Transport equipment	124 204	4.3	10.9	391 613	15.5	193.1	22 365	5.8	115.3
36 furniture, manufacturing n.e.c.	48 303	-2.7	4.2	117 526	3.9	58.0	15 145	6.4	78.1
37 recycling	3 614	7.9	0.3	213 252	37.1	105.2	18 355	4.6	94.6
DN Manufacturing n.e.c.	51 916	-2.0	4.6	124 189	7.3	61.2	15 368	6.4	79.2
D Manufacturing	1 045 349	1.5	91.7	203 385	9.3	100.3	18 881	6.0	97.3
40 electricity, gas, steam and hot water supply	32 422	-6.4	2.8	382 464	8.7	188.6	29 142	9.1	150.2
41 collection, purification and distribution of water	19 288	-3.2	1.7	62 657	4.3	30.9	20 529	6.7	105.8
E Electricity, gas and water supply	51 710	-5.2	4.5	263 175	7.3	129.8	25 929	8.1	133.7
Total industry	1 139 788	1.0	100.0	202 776	9.2	100.0	19 400	6.0	100.0

Source: Czech Statistical Office

III. CONSTRUCTION

1. Output, employment, labor productivity (CZK in current pr., indices in % in compar. pr.)

Indicator	Unit	2005	2006														2006	
			Jan.	Feb.	March	1.-3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.	Oct.	Nov.		Dec.
Construction output	mill. CZK %	422 737 4.2	17 453 -1.2	20 589 -8.2	29 792 8.7	67 834 0.5	33 534 -3.0	42 311 10.5	46 168 10.0	189 847 4.1	43 367 12.1	45 057 6.3	47 003 4.2	325 275 5.4	49 299 7.2	50 907 7.7	37 579 15.4	463 060 6.6
Construction output in firms with 20 or more employees by contractors of which:	mill. CZK %	290 672 5.1	11 868 -1.8	12 628 -10.1	17 466 7.7	41 962 -0.9	21 070 -2.5	28 344 11.1	31 022 10.3	122 398 4.1	29 557 12.4	31 868 6.0	33 166 4.5	216 989 5.5	35 818 5.8	37 659 7.2	30 401 15.5	320 867 6.6
in CR	mill. CZK %	286 026 4.8	11 752 -1.7	12 452 -9.9	16 859 4.6	41 063 -2.0	20 747 -2.9	27 681 9.8	30 417 9.6	119 908 3.1	28 650 10.9	31 249 5.3	32 277 3.6	212 085 4.5	34 744 3.5	36 594 5.5	29 320 13.8	312 742 5.3
including: - repairs and maintenance	mill. CZK %	33 999 -5.8	1 070 -10.9	1 307 8.9	1 741 3.4	4 118 0.8	2 152 -13.4	3 277 19.4	3 580 11.4	13 127 5.2	3 535 16.0	4 045 11.0	4 056 6.6	24 763 7.8	4 523 5.6	4 526 1.6	4 019 3.2	37 832 6.3
- new construction. reconstruction modernization	mill. CZK %	248 268 6.5	10 589 0.4	11 051 -11.2	14 979 5.2	36 619 -1.7	18 456 -1.0	24 258 9.8	26 627 10.1	105 959 3.7	24 983 11.2	27 033 5.5	28 024 3.9	186 000 4.9	29 986 3.9	31 833 6.8	25 063 16.4	272 883 6.0
- other works	mill. CZK %	3 759 6.0	93 -55.1	94 -43.9	139 -31.1	326 -43.4	139 -50.4	146 -60.1	210 -41.4	822 -48.4	132 -59.3	171 -59.4	196 -51.0	1 321 -51.7	234 -44.7	234 -42.5	238 -29.9	2 028 -48.2
abroad	mill. CZK %	4 646 17.9	116 -2.7	176 -23.3	607 251.7	899 72.9	323 26.7	663 94.0	605 53.9	2 490 64.8	906 77.0	619 51.5	889 41.2	4 904 60.2	1 075 148.4	1 065 93.6	1 081 70.4	8 125 73.7
Number of employees in firms with 20 or more employees	thous. pers. %	161.6 4.9	152.9 1.4	153.0 1.2	155.3 1.1	153.8 1.2	160.3 0.6	163.4 0.9	164.9 0.7	158.3 1.0	167.3 -0.1	167.6 -0.2	165.8 -0.5	161.2 0.5	166.2 -0.6	166.2 -0.7	162.8 -0.2	162.2 0.3
Labour productivity in firms with 20 or more employees	curr. pr. thous. CZK com. pr. %	17 98.4 0.2	77.6 -3.1	82.5 -11.2	112.4 6.5	272.9 -2.1	131.5 -3.0	173.5 10.1	188.1 9.6	7 73.2 3.1	1 76.7 12.5	190.1 6.2	200.0 5.0	1346.2 4.9	215.5 6.4	226.5 8.0	186.8 15.7	1978.7 6.3
Average monthly wages in firms with 20 or more employees	curr. pr. CZK %	18 923 3.8	16 853 5.0	15 826 -4.5	20 768 17.3	17 831 6.3	18 583 1.7	20 652 12.0	20 431 4.9	18 894 6.2	20 599 8.4	20 577 7.9	20 754 6.8	19 498 6.7	21 144 9.3	24 178 5.2	22 699 12.4	20 304 7.3
Construction output in firms up to 19 employees	curr. pr. mill. CZK %	132 065 2.3	5 585 1.0	7 961 -4.9	12 326 10.3	25 872 3.0	12 464 -3.9	13 967 9.3	15 146 9.3	67 449 4.2	13 810 11.6	13 189 7.1	13 838 3.8	108 286 5.4	13 481 11.1	13 248 9.3	7 178 15.3	142 193 6.7
Permits granted in CR total number	pc	142 941	8 652	7 577	9 120	25 349	9 705	12 469	12 186	59 709	11 806	13 594	13 327	98 436	13 784	11 730	11 441	135 391
estimated value of construction project	bill. CZK	325.8	18.3	26.0	20.5	64.9	23.2	51.7	26.4	166.2	32.0	36.4	31.9	266.5	29.8	30.0	34.7	361.0

Source: Czech Statistical Office

III. CONSTRUCTION

2. Dwelling construction (index in % - the corresponding period of previous year = 100)

	Unit	2000	2001	2002	2003	2004	2005	2006			
								1. Q.	1.-2. Q.	1.-3. Q.	1.-4. Q.
Dwellings started	number	32 377	28 983	33 606	36 496	39 037	40 381	9 117	20 206	31 905	43 747
	%	-1.6	-10.5	16.0	8.6	7.0	3.4	5.5	14.2	6.5	8.3
completed	number	25 207	24 759	27 292	27 127	32 268	32 863	6 929	12 117	18 166	30 190
	%	6.2	-1.8	10.2	-0.6	19.0	1.8	7.4	-3.2	-13.5	-8.1
Dwellings under construction	number	118 785	121 705	129 609	139 132	146 801	155 202	157 390	163 291	168 941	168 825
	%	5.6	2.5	6.5	7.3	5.5	5.7	5.7	7.3	8.3	8.8

Source: Czech Statistical Office

IV. EXTERNAL TRADE

1. Territorial structure

	Turnover		y-o-y change	Exports		y-o-y change	Imports		y-o-y change	Balance	
	1-12/2006			1-12/2006			1-12/2006			1-12/2005	1-12/2006
	mill. CZK	share in %	in %	mill. CZK	share in %	in %	mill. CZK	share in %	in %	mill. CZK	mill. CZK
Total external trade	4 243 602	100.0	14.7	2 143 998	100.0	14.7	2 099 604	100.0	14.7	38 624	44 394
Developed market economies	3 586 284	84.5	13.6	1 929 802	90.0	14.4	1 656 482	78.9	12.7	217 683	273 320
EU	3 269 659	77.0	13.9	1 798 814	83.9	14.5	1 470 845	70.1	13.3	272 031	327 969
EFTA	83 089	2.0	16.1	39 747	1.9	27.2	43 342	2.1	7.4	-9 101	-3 595
Other developed market economies	233 536	5.5	8.1	91 241	4.3	6.8	142 295	6.8	8.9	-45 247	-51 054
Developing countries	188 173	4.4	10.1	71 403	3.3	6.9	116 770	5.6	12.1	-37 357	-45 367
European transition economies	75 963	1.8	25.0	56 554	2.6	22.7	19 409	0.9	32.4	31 444	37 145
CIS countries	247 981	5.8	23.1	74 667	3.5	27.0	173 314	8.3	21.4	-83 943	-98 647
Other ⁿ⁾	141 566	3.3	35.2	10 480	0.5	28.4	131 086	6.2	35.8	-88 377	-120 606
Unspecified	3 635	0.1	2.5	1 092	0.1	-19.7	2 543	0.1	16.3	-826	-1 451
External trade with OECD countries	3 550 968	83.7	13.5	1 897 827	88.5	14.3	1 653 141	78.7	12.7	193 705	244 686

^{x)} China, North Korea, Cuba, Laos, Mongolia, Vietnam

Source: Czech Statistical Office

IV. EXTERNAL TRADE

2. Commodity structure

SITC	Exports		y-o-y change	Imports		y-o-y change	Balance	
	1-12/2006			1-12/2006			1-12/2005	1-12/2006
	mill. CZK	share in %	in %	mill. CZK	share in %	in %	mill. CZK	mill. CZK
Total external trade	2 143 998	100.0	14.7	2 099 604	100.0	14.7	38 624	44 394
including:								
0 Food and live animals	62 252	2.9	1.9	88 310	4.2	8.2	-20 586	-26 058
1 Beverages and tobacco	10 874	0.5	2.5	12 999	0.6	10.3	-1 172	-2 125
2 Crude materials, inedible, exept fuels	54 762	2.6	16.0	57 692	2.7	12.3	-4 163	-2 930
3 Mineral fuels, lubricants and related materials	62 431	2.9	8.8	201 440	9.6	20.2	-110 220	-139 009
4 Animal and vegetable oils, fats. waxes	1 949	0.1	10.8	3 915	0.2	8.0	-1 867	-1 966
5 Chemicals and related products	129 349	6.0	8.7	218 866	10.4	8.6	-82 501	-89 517
6 Manufactured goods classified chiefly by material	446 554	20.8	9.9	427 187	20.3	14.1	32 005	19 367
7 Machinery and transport equipment	1 138 947	53.1	20.0	864 589	41.2	17.3	212 249	274 358
8 Miscellaneous manufactured articles	236 230	11.0	9.6	223 490	10.6	11.8	15 596	12 740
9 Unclassified	650	0.0	19.7	1 116	0.1	-11.4	-717	-466

Source: Czech Statistical Office

IV. EXTERNAL TRADE

3. External trade CR with some countries

Indicator	Turnover			Exports			Imports			Balance	
	1 -12/2006 mil. CZK	Share %	y-o-y change in %	1 -12/2006 mill. CZK	Share %	y-o-y change in %	1 -12/2006 mill. CZK	Share %	y-o-y change in %	1 -12/2005 mill. CZK	1 -12/2006 mill. CZK
Germany	1 278 557	30.1	8.4	681 193	31.8	8.4	597 364	28.5	8.5	78 035	83 829
Slovakia	292 747	6.9	12.1	180 297	8.4	11.7	112 450	5.4	12.7	61 546	67 847
Poland	240 727	5.7	24.5	122 007	5.7	19.2	118 720	5.7	30.5	11 341	3 287
France	218 476	5.1	24.5	118 484	5.5	28.6	99 992	4.8	19.9	8 714	18 492
Italy	197 134	4.6	18.6	98 958	4.6	25.9	98 176	4.7	12.1	-8 939	782
Austria	187 866	4.4	5.7	109 624	5.1	4.7	78 242	3.7	7.1	31 643	31 382
Russia	168 749	4.0	22.1	42 569	2.0	26.5	126 180	6.0	20.6	-70 952	-83 611
The Netherland	161 950	3.8	14.8	78 028	3.6	14.3	83 922	4.0	15.3	-4 504	-5 894
Great Britain	157 124	3.7	19.6	102 251	4.8	18.3	54 873	2.6	22.2	41 557	47 378
China	136 827	3.2	35.1	8 989	0.4	25.6	127 838	6.1	35.9	-86 948	-118 849
Hungary	114 875	2.7	27.2	64 086	3.0	26.0	50 789	2.4	28.8	11 445	13 297
Belgium	103 304	2.4	20.9	61 411	2.9	24.4	41 893	2.0	16.0	13 259	19 518
USA	98 194	2.3	2.5	49 365	2.3	-0.8	48 829	2.3	6.0	3 678	536
Spain	97 696	2.3	17.6	57 627	2.7	20.9	40 069	1.9	13.3	12 302	17 558
Japan	72 765	1.7	10.2	9 202	0.4	16.8	63 563	3.0	9.3	-50 302	-54 361
Taiwan	26 870	0.6	35.4	1 262	0.1	2.8	25 608	1.2	37.5	-17 391	-24 346
Norway	23 182	0.5	27.1	9 076	0.4	33.8	14 106	0.7	23.1	-4 676	-5 030
Malaysia	15 680	0.4	22.6	1 280	0.1	-7.8	14 400	0.7	26.3	-10 014	-13 120

Source: Czech Statistical Office

V. DOMESTIC TRADE

		2005	2006															2006
			1.	2.	3.	1. - 3.	4.	5.	6.	1. - 6.	7.	8.	9.	1.-9.	10.	11.	12.	
Retail sale total (NACE 50. 52. 55)	a	4.1	6.7	7.8	6.5	6.8	5.3	7.4	6.8	6.5	6.8	7.5	4.0	6.4	6.7	5.4	4.1	6.1
	b	3.4	5.9	7.0	6.1	6.1	4.9	6.5	6.2	5.9	6.0	6.8	4.8	5.9	8.2	6.3	4.2	6.0
Retail sale including motor vehicles (NACE 50. 52)	a	4.5	7.7	8.6	7.2	7.6	5.8	7.9	7.1	7.1	7.0	7.8	3.8	6.8	7.1	5.4	4.2	6.4
	b	4.0	6.9	7.8	6.9	6.9	5.5	7.0	6.6	6.5	6.3	7.3	4.9	6.4	8.9	6.5	4.4	6.4
Sale and repairs of motor vehicles and fuel (NACE 50)	a	7.6	12.0	14.5	10.6	11.8	7.4	11.1	6.6	9.3	6.5	9.7	2.8	8.2	5.9	4.3	1.9	7.1
	b	4.3	6.7	8.9	7.0	7.1	4.4	6.7	4.0	5.4	5.0	8.7	6.6	5.8	10.8	7.9	3.6	6.3
Sale and repairs of motor vehicles (NACE 50.1 - 50.4)	a	4.0	10.5	13.2	11.9	11.1	2.1	6.2	2.7	6.0	4.6	13.3	7.5	6.8	11.4	6.3	2.5	6.7
	b	4.9	10.1	12.7	11.7	10.7	2.3	6.0	2.9	5.9	5.2	13.7	8.3	6.9	12.4	7.4	3.6	7.1
Fuel (NACE 50.5)	a	13.2	14.3	16.5	8.3	13.1	16.5	18.8	13.1	14.7	8.6	5.9	-2.4	10.2	-1.1	1.2	1.0	7.6
	b	3.4	2.0	2.5	-1.8	1.1	8.8	7.8	6.0	4.5	4.8	1.8	4.0	4.1	8.1	8.8	3.8	4.8
Retail sale (NACE 52)	a	3.0	5.8	5.9	5.5	5.6	4.9	6.3	7.4	6.0	7.2	6.8	4.3	6.0	7.8	5.9	5.1	6.1
	b	3.8	7.0	7.3	6.9	6.9	6.0	7.2	7.9	7.1	7.0	6.6	4.0	6.6	7.9	5.9	4.7	6.5

Note: a = y-o-y index in current prices

b = y-o-y index in constant prices

Source: Czech Statistical Office

VI. FINANCIAL CONDITIONS
1. Pre-tax profit or loss (million CZK)

(firms with 100 and more employees)

NACE Division	Year		y-o-y change	Share total =100	
	2005	2006		2005	2006
10 mining of coal and lignite.extraction of peat	14 010	12 155	-1855	5.28	3.61
CA Mining and quarr. of energy produc. mater.	15 696	13 950	-1746	5.91	4.14
CB Mining and quarr. exc. energy prod. mater.	545	1 207	663	0.21	0.36
C Mining and quarrying	16 241	15 158	-1083	6.12	4.50
DA Food products, beverages and tobacco	19 298	17 976	-1322	7.27	5.34
17 textiles	1 113	2	-1111	0.42	0.00
18 wearing apparel, dressing, dyeing of fur	-93	247	339	-0.03	0.07
DB Textiles and textile products	1 020	248	-772	0.38	0.07
DC Leather and leather products	-37	25	62	-0.01	0.01
DD Wood and wood products	1 575	2 041	466	0.59	0.61
21 pulp, paper and pap. products	3 773	3 364	-409	1.42	1.00
22 publis.. printing and reprod. of rec. media	2 301	1 912	-389	0.87	0.57
DE Pulp, paper and pap. prod., publis. printing	6 073	5 275	-798	2.29	1.57
DF Coke, refined petroleum	1 252	1 389	137	0.47	0.41
DG Chemic., chem. prod. and man-made fibres	11 064	12 006	942	4.17	3.57
DH Rubber and plastic products	8 738	11 353	2615	3.29	3.37
DI Other non-metallic mineral products	13 017	13 851	834	4.90	4.11
27 basic metals	16 794	21 755	4962	6.33	6.46
28 fabric. metal prod., exc. machin. and equip.	5 950	8 322	2372	2.24	2.47
DJ Basic metals and fabricated metal products	22 744	30 077	7333	8.57	8.93
DK Machinery and equipment n.e.c.	6 365	10 745	4381	2.40	3.19
30 office machinery and computers	-3	-3 322	-3319	0.00	-0.99
31 electrical machinery and apparatus n.e.c.	6 774	7 526	752	2.55	2.24
32 radio, telev. and commun. equip. t. apparat.	598	4 830	4232	0.23	1.43
33 med., precis. and opt .instr., watch., clocks	2 428	2 857	429	0.91	0.85
DL Electrical and optical equipment	9 797	11 891	2095	3.69	3.53
34 motor vehicles, trailers and semi-trailers	19 501	32 462	12961	7.35	9.64
35 other transport equipment	32	-420	-452	0.01	-0.12
DM Manufacture of transport equipment	19 533	32 043	12509	7.36	9.52
36 furniture, manufacturing n.e.c.	4 647	6 413	1766	1.75	1.90
37 recycling	40	216	176	0.01	0.06
DN Manufacturing n.e.c.	4 687	6 629	1942	1.77	1.97
D Manufacturing	125 125	155 550	30425	47.14	46.20
40 electricity, gas, steam and hot water supply	41 683	64 319	22636	15.70	19.10
41 collection, purific. and distrib. of water	2 376	2 756	380	0.90	0.82
E Electricity, gas and water supply	44 058	67 075	23016	16.60	19.92
Total industry	185 424	237 782	52358	69.86	70.62
F Construction	11 466	14 712	3246	4.32	4.37
G Wholesale and retail trade, repair of motor vehicles, motorcycles	18 907	30 088	11181	7.12	8.94
H Hotels and restaurants	2 203	1 959	-244	0.83	0.58
I Transport. storage and communication	31 955	33 399	1445	12.04	9.92
K Real estate. renting and business activities	7 895	10 758	2864	2.97	3.20
A+B Agriculture. hunting and forestry	2 561	4 071	1511	0.96	1.21
L-Q Others	5 011	3 915	-1096	1.89	1.16
Total CR	265 422	336 685	71263	100.00	100.00

Source: Czech Statistical Office

VI. FINANCIAL CONDITIONS

2. The amount of profit and number of enterprises (firms with 100 and more employees)

NACE	Enterprises with profit							
	am. in mill. CZK		y-o-y change	number of employees		y-o-y change	number of firms	
	2005	2006		2005	2006		2005	2006
10 mining of coal and lignite, extraction of peat	14 010	12 212	-1 798	34 282	32 230	-2 052	12	11
CA Mining and quarrying of energy producing mater.	16 070	14 163	-1 908	34 829	32 821	-2 008	14	13
CB Mining and quarrying except energy prod. mater.	719	1 210	491	2 996	3 269	273	16	17
C Mining and quarrying	16 789	15 373	-1 417	37 825	36 089	-1 736	29	30
DA Food products, beverages and tobacco	20 687	19 871	-816	65 025	58 010	-7 015	215	206
17 textiles	2 582	1 775	-806	19 844	17 717	-2 126	58	49
18 wearing apparel, dressing, dyeing of fur	131	307	176	7 902	8 032	130	19	26
DB Textiles and textile products	2 713	2 083	-630	27 745	25 749	-1 996	77	75
DC Leather and leather products	73	129	56	2 360	2 803	443	13	14
DD Wood and wood products	1 790	2 278	488	10 761	11 431	670	50	58
21 pulp, paper and pap. products	3 917	3 544	-373	12 210	10 701	-1 509	36	30
22 publish., printing and reproduct, of record. media	2 476	2 294	-182	11 684	8 368	-3 316	44	34
DE Pulp, paper and pap. products, publish. printing	6 393	5 837	-555	23 894	19 069	-4 825	80	64
DF Coke, refined petroleum	1 440	1 389	-50	2 048	2 838	791	3	4
DG Chemic., chem. prod. and man-made fibres	12 307	12 912	605	27 965	26 820	-1 145	54	55
DH Rubber and plastic products	9 269	12 437	3 169	42 582	44 192	1 610	127	146
DI Other non-metallic mineral products	14 440	15 257	817	42 793	34 493	-8 300	117	114
27 basic metals	17 918	22 315	4 397	45 278	44 623	-654	72	74
28 fabric. metal prod., except machin. and eq.	6 993	9 583	2 590	53 523	56 184	2 661	212	238
DJ Basic metals and fabricated metal products	24 911	31 898	6 987	98 801	100 807	2 006	284	312
DK Machinery and equipment n.e.c.	10 027	12 860	2 833	81 115	86 493	5 379	266	291
30 office machinery and computers	902	1 235	333	5 243	6 529	1 287	11	13
31 electrical machinery and apparatus n.e.c.	7 894	8 206	312	58 835	62 775	3 940	140	142
32 radio, televis. and communic. equip. t. app.	4 274	5 250	977	14 553	19 514	4 962	35	39
33 medic., precis. and optic. instr., watches, clocks	2 591	2 965	374	14 678	16 637	1 960	38	36
DL Electrical and optical equipment	15 660	17 657	1 996	93 308	105 456	12 148	224	230
34 motor vehicles, trailers and semi-trailers	25 327	35 623	10 296	83 787	92 546	8 760	99	110
35 other transport equipment	1 701	2 002	301	10 615	9 543	-1 072	28	24
DM Transport equipment	27 029	37 625	10 596	94 402	102 089	7 687	127	133
36 furniture, manufacturing n.e.c.	5 147	6 820	1 673	23 629	24 882	1 253	79	84
37 recycling	80	230	150	900	1 186	286	6	7
DN Manufacturing n.e.c.	5 227	7 051	1 823	24 529	26 068	1 540	85	91
D Manufacturing	151 966	179 284	27 318	637 326	646 319	8 993	1 722	1 792
40 electricity, gas, steam and hot water supply	42 532	65 550	23 018	30 592	26 037	-4 555	53	55
41 collection, purification and distribution of water	2 376	2 756	380	18 734	17 936	-798	48	46
E Electricity, gas and water supply	44 907	68 306	23 398	49 326	43 973	-5 353	102	101
Total industry	213 663	262 962	49 299	724 476	726 380	1 904	1 853	1 923
F Construction	12 291	15 814	3 523	68 870	70 050	1 180	240	245

Source: CZSO, MIT

VI. FINANCIAL CONDITIONS

3. The amount of loss and number of enterprises (firms with 100 and more employees)

NACE	Enterprises with loss							
	am. in mill. CZK		y-o-y change	number of employees		y-o-y change	number of firms	
	2005	2006		2005	2006		2005	2006
10 mining of coal and lignite, extraction of peat	0	-57	-57	0	1 068	1 068	0	5
CA Mining and quarrying of energy producing mater.	x	-213		x	4 076		1	6
CB Mining and quarrying except energy prod. mater.	x	x		x	x		2	1
C Mining and quarrying	-549	-215	334	3 538	4 184	646	3	7
DA Food products, beverages and tobacco	-1 390	-1 896	-506	14 126	17 148	3 022	62	65
17 textiles	-1 469	-1 774	-305	14 226	12 636	-1 590	50	43
18 wearing apparel, dressing, dyeing of fur	-224	-61	163	5 414	3 501	-1 914	20	11
DB Textiles and textile products	-1 693	-1 834	-142	19 641	16 137	-3 504	70	53
DC Leather and leather products	-110	-104	6	2 732	2 122	-610	15	11
DD Wood and wood products	-215	-237	-22	3 320	3 108	-212	16	15
21 pulp, paper and pap. products	-145	-180	-36	1 688	2 971	1 283	8	11
22 publish., printing and reproduct, of record. media	-175	-382	-207	1 954	5 452	3 498	10	16
DE Pulp, paper and pap. products, publish. printing	-320	-562	-242	3 642	8 422	4 780	18	27
DF Coke, refined petroleum	x	0		x	0		1	0
DG Chemic., chem. prod. and man-made fibres	-1 243	-906	338	3 134	2 863	-271	17	17
DH Rubber and plastic products	-531	-1 084	-553	5 407	8 744	3 337	29	29
DI Other non-metallic mineral products	-1 423	-1 406	17	11 855	18 693	6 838	35	35
27 basic metals	-1 125	-560	565	6 605	6 598	-6	20	23
28 fabric. metal prod., except machin. and eq.	-1 043	-1 261	-218	10 718	10 249	-468	61	49
DJ Basic metals and fabricated metal products	-2 168	-1 821	347	17 322	16 848	-475	82	71
DK Machinery and equipment n.e.c.	-3 662	-2 115	1 547	19 085	16 704	-2 381	75	51
30 office machinery and computers	-905	-4 557	-3 652	2 293	1 892	-401	6	4
31 electrical machinery and apparatus n.e.c.	-1 119	-679	440	15 149	12 617	-2 532	48	41
32 radio, televis. and communic. equip. t. app.	-3 676	-420	3 256	8 648	5 158	-3 490	14	12
33 medic., precis. and optic. instr., watches, clocks	-163	-108	55	2 078	1 861	-217	7	11
DL Electrical and optical equipment	-5 864	-5 765	98	28 168	21 527	-6 641	75	68
34 motor vehicles, trailers and semi-trailers	-5 826	-3 161	2 666	10 389	7 701	-2 688	27	27
35 other transport equipment	-1 669	-2 422	-753	6 209	7 482	1 273	16	19
DM Transport equipment	-7 495	-5 582	1 913	16 599	15 183	-1 416	44	46
36 furniture, manufacturing n.e.c.	-500	-407	93	8 843	7 288	-1 555	38	29
37 recycling	-40	x		574	x		3	2
DN Manufacturing n.e.c.	-540	-422	119	9 417	7 559	-1 858	41	31
D Manufacturing	-26 841	-23 735	3 107	155 326	155 058	-269	579	520
40 electricity, gas, steam and hot water supply	-849	-1 231	-382	1 209	3 226	2 017	8	7
41 collection, purification and distribution of water	0	0	0	0	0	0	0	0
E Electricity, gas and water supply	-849	-1 231	-382	1 209	3 226	2 017	8	7
Total industry	-28 239	-25 180	3 059	160 073	162 467	2 394	589	534
F Construction	-825	-1 102	-277	7 134	6 688	-446	40	43

x- individual data (1 or 2 firms)

Source: CZSO, MIT

VI. FINANCIAL CONDITIONS

4. Book value added (firms with 100 and more employees)

NACE	Book value added mill. CZK		y-o-y change %	Share total = 100		Book value added per empl. in CZK		y-o-y change %
	2005	2006		2005	2006	2005	2006	
10 mining of coal and lignite, extraction of peat	30 909	31 552	2.1	3.13	2.85	901 604	947 585	5.1
CA Mining and quarrying of energy producing mater.	33 368	34 437	3.2	3.38	3.12	879 541	933 341	6.1
CB Mining and quarrying except energy prod. mater.	2 984	3 511	17.7	0.30	0.32	871 047	1 039 740	19.4
C Mining and quarrying	36 351	37 948	4.4	3.68	3.43	878 838	942 263	7.2
DA Food products, beverages and tobacco	57 652	56 357	-2.2	5.84	5.10	728 382	749 855	2.9
17 textiles	11 502	10 281	-10.6	1.16	0.93	337 586	338 717	0.3
18 wearing apparel, dressing, dyeing of fur	2 775	2 750	-0.9	0.28	0.25	208 420	238 448	14.4
DB Textiles and textile products	14 277	13 031	-8.7	1.45	1.18	301 289	311 110	3.3
DC Leather and leather products	1 042	1 165	11.7	0.11	0.11	204 718	236 480	15.5
DD Wood and wood products	7 438	7 779	4.6	0.75	0.70	528 198	535 036	1.3
21 pulp, paper and pap. products	10 756	10 359	-3.7	1.09	0.94	773 917	757 684	-2.1
22 publish., printing and reproduct. of record. media	9 622	9 219	-4.2	0.97	0.83	705 519	667 093	-5.4
DE Pulp, paper and pap. products, publish. printing	20 378	19 577	-3.9	2.06	1.77	740 041	712 144	-3.8
DF Coke, refined petroleum	5 571	4 562	-18.1	0.56	0.41	1 903 501	1 607 476	-15.6
DG Chemic., chem. prod. and man-made fibres	32 049	33 162	3.5	3.25	3.00	1 030 553	1 117 221	8.4
DH Rubber and plastic products	30 569	37 043	21.2	3.10	3.35	637 015	699 773	9.9
DI Other non-metallic mineral products	41 207	41 539	0.8	4.17	3.76	754 051	781 010	3.6
27 basic metals	40 066	46 162	15.2	4.06	4.18	772 246	901 222	16.7
28 fabric. metal prod., except machin. and eq.	31 268	34 911	11.7	3.17	3.16	486 723	525 496	8.0
DJ Basic metals and fabricated metal products	71 334	81 073	13.7	7.22	7.33	614 291	689 070	12.2
DK Machinery and equipment n.e.c.	46 075	53 502	16.1	4.67	4.84	459 834	518 439	12.7
30 office machinery and computers	1 515	2 857	88.5	0.15	0.26	201 100	339 236	68.7
31 electrical machinery and apparatus n.e.c.	34 135	36 776	7.7	3.46	3.33	461 387	487 805	5.7
32 radio, televis. and communic. equip. t. app.	11 702	15 552	32.9	1.18	1.41	504 385	630 357	25.0
33 medic., precis. and optic. instr., watches, clocks	8 920	10 196	14.3	0.90	0.92	532 358	551 175	3.5
DL Electrical and optical equipment	56 273	65 381	16.2	5.70	5.91	463 242	514 881	11.1
34 motor vehicles, trailers and semi-trailers	79 437	94 787	19.3	8.04	8.57	843 497	945 532	12.1
35 other transport equipment	7 128	7 707	8.1	0.72	0.70	423 680	452 680	6.8
DM Transport equipment	86 566	102 494	18.4	8.77	9.27	779 865	873 983	12.1
36 furniture, manufacturing n.e.c.	15 270	16 200	6.1	1.55	1.47	470 271	503 576	7.1
37 recycling	723	874	20.9	0.07	0.08	490 295	599 414	22.3
DN Manufacturing n.e.c.	15 993	17 074	6.8	1.62	1.54	471 141	507 730	7.8
D Manufacturing	486 423	533 738	9.7	49.26	48.28	613 665	666 027	8.5
40 electricity, gas, steam and hot water supply	91 228	111 920	22.7	9.24	10.12	2 868 738	3 824 716	33.3
41 collection, purification and distribution of water	12 087	12 218	1.1	1.22	1.11	645 182	681 232	5.6
E Electricity, gas and water supply	103 315	124 138	20.2	10.46	11.23	2 044 447	2 630 160	28.6
Total industry	626 089	695 824	11.1	63.40	62.94	707 806	782 839	10.6
F Construction	42 681	49 673	16.4	4.32	4.49	561 562	647 301	15.3
G Whol. and retail tr., rep. of mot. vehic., motor.	83 523	98 183	17.6	8.46	8.88	545 076	592 988	8.8
H Hotels and restaurants	10 064	10 172	1.1	1.02	0.92	479 983	478 327	-0.3
I Transport, storage and communication	132 305	138 139	4.4	13.40	12.50	641 223	680 062	6.1
K Real estate, renting and business activities	49 891	64 447	29.2	5.05	5.83	511 329	566 688	10.8
A+B Agriculture, hunting and forestry	17 174	17 974	4.7	1.74	1.63	318 177	358 298	12.6
L - Q Others	25 827	31 064	20.3	2.62	2.81	459 173	468 320	2.0
Total - non financial sphere	987 555	1 105 476	11.9	100.00	100.00	637 592	697 121	9.3

Source: CZSO, MIT

VI. FINANCIAL CONDITIONS

6. Pre-tax profit or loss in industry and construction by institutional sectors (firms with 100 or more employees)

NACE Division	Pre-tax profit or loss (million CZK)							
	T o t a l		11001 - public sector		11002 - private sector		11003 - foreign sector	
	year 2006	y-o-y change	year 2006	y-o-y change	year 2006	y-o-y change	year 2006	y-o-y change
10 mining of coal and lignite, extraction of peat	12 155	-1 855	x	x	8 633	-3 364	38	7
CA Mining and quarrying of energy producing mater.	13 950	-1 746	3 328	1721	10 584	-3 474	38	7
CB Mining and quarrying except energy producing mater.	1 207	663	0	0	676	489	531	174
C Mining and quarrying	15 158	-1 083	3 328	1721	11 260	-2 985	569	181
DA Food products, beverages and tobacco	17 976	-1 322	x	x	2 249	-2 049	15 431	739
17 textiles	2	-1 111	0	0	-306	-992	308	-119
18 wearing apparel, dressing, dyeing of fur	247	339	0	0	194	338	48	-4
DB Textiles and textile products	248	-772	0	0	-112	-654	356	-123
DC Leather and leather products	25	62	0	0	54	58	-29	4
DD Wood and wood products	2 041	466	0	0	788	506	1 253	-40
21 pulp, paper and pap. products	3 364	-409	x	x	313	-46	3 083	-333
22 publishing, printing and reprod. of recorded media	1 912	-389	x	x	495	-292	1 048	-206
DE Ppulp, paper and pap. products, publis. printing	5 275	-798	x	x	808	-337	4 131	-539
DF Coke, refined petroleum	1 389	137	0	0	1 153	-287	x	x
DG Chemic., chem. prod. and man-made fibres	12 006	942	x	x	1 443	-110	10 531	1 049
DH Rubber and plastic products	11 353	2 615	0	0	1 229	76	10 124	2 539
DI Other non-metallic mineral products	13 851	834	0	x	3 358	-609	10 493	1 509
27 basic metals	21 755	4 962	0	0	7 691	3 495	14 064	1 466
28 fabric. metal prod., except machinery and equip.	8 322	2 372	x	x	2 779	1 115	5 368	1 228
DJ Basic metals and fabricated metal products	30 077	7 333	x	x	10 470	4 611	19 432	2 694
DK Machinery and equipment n.e.c.	10 745	4 381	-181	-297	5 782	2 610	4 980	1 922
30 office machinery and computers	-3 322	-3 319	0	0	120	93	-3 442	-3 411
31 electrical machinery and apparatus n.e.c.	7 526	752	0	0	2 393	-228	5 133	980
32 of radio, televis. and communic. equip. t. apparat.	4 830	4 232	0	0	180	-233	4 650	4 466
33 medic., precis. and optic. instr., watches, clocks	2 857	429	0	0	828	295	2 029	134
DL Electrical and optical equipment	11 891	2 095	0	0	3 521	-73	8 371	2 168
34 motor vehicles, trailers and semi-trailers	32 462	12 961	0	0	1 876	176	30 586	12 785
35 other transport equipment	-420	-452	-1 049	240	1 508	723	-878	-1 415
DM Transport equipment	32 043	12 509	-1 049	240	3 383	899	29 708	11 370
36 furniture, manufacturing n.e.c.	6 413	1 766	0	0	1 353	382	5 019	1 392
37 recycling	216	176	0	0	188	132	x	x
DN Manufacturing n.e.c.	6 629	1 942	0	0	1 541	514	5 048	1436
D Manufacturing	155 550	30 425	-551	-21	35 666	5 156	120 064	25 152
40 electricity, gas, steam and hot water supply	64 319	22 636	36 382	12 130	10 991	-557	16 946	11 063
41 collection, purification and distribution of water	2 756	380	566	107	379	90	1 811	183
E Electricity, gas and water supply	67 075	23 016	36 948	12 237	11 369	-467	18 757	11 246
Total industry	237 782	52 358	39 725	13 938	58 296	1 704	139 391	36 579
F Construction	14 712	3 246	x	x	11 361	1 992	3 240	1 229

x individual data (1 or 2 firms)

Source: CZSO, MIT

VI. FINANCIAL CONDITIONS

7. Book value added in industry and construction by institutional sectors (firms with 100 or more employees)

NACE Division	Book value added (million CZK)							
	T o t a l		11001 - public sector		11002 - private sector		11003 - foreign sector	
	year 2006	y-o-y change %	year 2006	y-o-y change %	year 2006	y-o-y change %	year 2006	y-o-y change %
10 mining of coal and lignite, extraction of peat	31 552	2.1	x	x	26 044	-1.3	454	53.1
CA Mining and quarrying of energy producing mater.	34 437	3.2	4 844	22.7	29 138	0.1	454	53.1
CB Mining and quarrying except energy producing mater.	3 511	17.7	0	0	2 207	18.5	1 304	16.4
C Mining and quarrying	37 948	4.4	4 844	22.7	31 345	1.2	1 758	24.1
DA Food products, beverages and tobacco	56 357	-2.2	x	x	21 631	-7.5	33 761	1.3
17 textiles	10 281	-10.6	0	0	6 201	-16.4	4 081	0.0
18 wearing apparel, dressing, dyeing of fur	2 750	-0.9	0	0	1 904	-1.3	825	0.0
DB Textiles and textile products	13 031	-8.7	0	0	8 105	-13.3	4 906	0.0
DC Leather and leather products	1 165	11.7	0	0	672	10.9	493	13.0
DD Wood and wood products	7 779	4.6	0	0	3 140	7.6	4 639	2.7
21 pulp, paper and pap. products	10 359	-3.7	x	x	2 519	-9.6	7 774	-1.5
22 publishing, printing and reprod. of recorded media	9 219	-4.2	x	x	2 671	-11.0	5 852	-3.2
DE Ppulp, paper and pap. products, publis. printing	19 577	-3.9	x	x	5 189	-10.3	13 626	-2.2
DF Coke, refined petroleum	4 562	-18.1	0	0	3 962	-20.5	x	x
DG Chemic., chem. prod. and man-made fibres	33 162	3.5	x	x	7 612	-7.7	25 319	7.4
DH Rubber and plastic products	37 043	21.2	0	0	9 975	21.6	27 067	21.0
DI Other non-metallic mineral products	41 539	0.8	0	0	15 708	-2.7	25 831	4.1
27 basic metals	46 162	15.2	0	0	20 054	17.1	26 108	13.8
28 fabric. metal prod., except machinery and equip.	34 911	11.7	x	x	15 413	14.2	18 977	8.9
DJ Basic metals and fabricated metal products	81 073	13.7	x	x	35 468	15.8	45 085	11.7
DK Machinery and equipment n.e.c.	53 502	16.1	862	7.0	27 265	14.7	25 059	17.2
30 office machinery and computers	2 857	88.5	0	0	259	85.8	2 597	88.8
31 electrical machinery and apparatus n.e.c.	36 776	7.7	0	0	10 313	0.9	26 463	10.7
32 of radio, televis. and communic. equip. t. apparat.	15 552	32.9	0	0	2 321	30.2	13 231	33.4
33 medic., precis. and optic. instr., watches, clocks	10 196	14.3	0	0	3 202	35.9	6 994	6.5
DL Electrical and optical equipment	65 381	16.2	0	0	16 096	11.0	49 285	18.0
34 motor vehicles, trailers and semi-trailers	94 787	19.3	0	0	8 363	15.9	86 424	19.7
35 other transport equipment	7 707	8.1	697	2.3	4 628	13.4	2 382	0.7
DM Transport equipment	102 494	18.4	697	2.3	12 991	15.0	88 806	19.1
36 furniture, manufacturing n.e.c.	16 200	6.1	0	0	6 846	4.8	9 231	7.9
37 recycling	874	20.9	0	0	701	13.2	x	x
DN Manufacturing n.e.c.	17 074	6.8	0	0	7 547	5.6	9 404	8.6
D Manufacturing	533 738	9.7	3 526	2.2	175 361	5.0	353 881	12.3
40 electricity, gas, steam and hot water supply	111 920	22.7	62 163	22.2	25 418	0.1	24 339	62.9
41 collection, purification and distribution of water	12 218	1.1	4 375	-0.4	2 643	4.2	5 200	0.8
E Electricity, gas and water supply	124 138	20.2	66 538	20.4	28 061	0.4	29 539	47.0
Total industry	695 824	11.1	74 907	19.5	234 768	3.9	385 179	14.4
F Construction	49 673	16.4	x	x	38 644	15.4	10 663	21.1

x individual data (1 or 2 firms)

Source: CZSO, MIT

VI. FINANCIAL CONDITIONS

8. Book value added per employee in industry and construction by institutional sectors (firms with 100 or more employees)

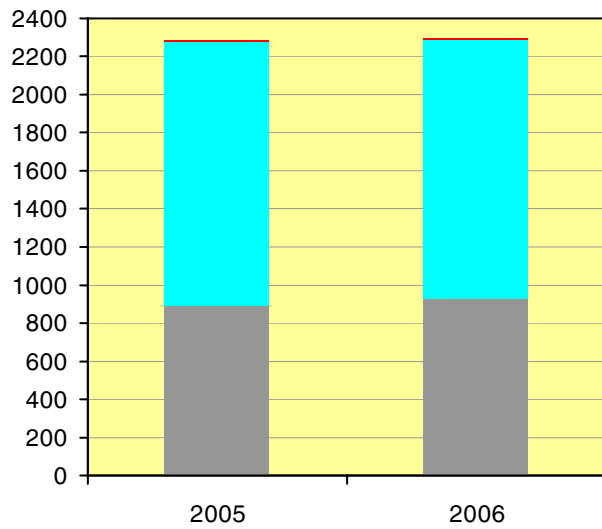
NACE Division	Book value added per employee/year (CZK)							
	T o t a l		11001 - public sector		11002 - private sector		11003 - foreign sector	
	year 2006	y-o-y change %	year 2006	y-o-y change %	year 2006	y-o-y change %	year 2006	y-o-y change %
10 mining of coal and lignite, extraction of peat	947 585	5.1	x	x	930 303	4.3	318 340	-18.9
CA Mining and quarrying of energy producing mater.	933 341	6.1	703 682	25.7	1 019 328	5.5	318 340	-18.9
CB Mining and quarrying except energy producing mater.	1 039 740	19.4	0	0	852 209	17.5	1 656 704	26.5
C Mining and quarrying	942 263	7.2	703 682	25.7	1 005 444	6.1	794 394	-9.7
DA Food products, beverages and tobacco	749 855	2.9	x	x	416 794	-1.6	1 511 661	3.3
17 textiles	338 717	0.3	0	0	302 136	-2.0	415 076	1.6
18 wearing apparel, dressing. dyeing of fur	238 448	14.4	0	0	230 110	18.1	260 411	4.4
DB Textiles and textile products	311 110	3.3	0	0	281 438	2.3	377 392	2.3
DC Leather and leather products	236 480	15.5	0	0	239 873	20.7	232 008	8.6
DD Wood and wood products	535 036	1.3	0	0	385 202	6.3	726 245	-3.1
21 pulp, paper and pap. products	757 684	-2.1	x	x	373 769	-3.7	1 165 585	-4.8
22 publishing, printing and reprod. of recorded media	667 093	-5.4	x	x	497 748	-8.1	741 958	-7.4
DE Pulp, paper and pap. products, publis. printing	712 144	-3.8	x	x	428 726	-5.8	936 056	-6.0
DF Coke, refined petroleum	1 607 476	-15.6	0	0	1 987 314	-18.3	x	x
DG Chemic., chem. prod. and man-made fibres	1 117 221	8.4	x	x	614 204	6.7	1 517 086	3.9
DH Rubber and plastic products	699 773	9.9	0	0	432 130	9.6	906 744	10.2
DI Other non-metallic mineral products	781 010	3.6	0	0	482 396	-1.3	1 252 471	5.0
27 basic metals	901 222	16.7	0	0	684 106	18.9	1 191 756	14.9
28 fabric. metal prod., except machinery and equip.	525 496	8.0	x	x	441 137	12.9	623 728	4.0
DJ Basic metals and fabricated metal products	689 070	12.2	x	x	551 986	15.9	861 509	9.2
DK Machinery and equipment n.e.c.	518 439	12.7	337 434	5.9	470 442	14.4	593 488	9.7
30 office machinery and computers	339 236	68.7	0	0	406 132	69.0	333 746	68.7
31 electrical machinery and apparatus n.e.c.	487 805	5.7	0	0	460 807	5.4	499 204	5.6
32 of radio, televis. and communic. equip. t. apparat.	630 357	25.0	0	0	432 205	17.5	685 490	26.8
33 medic., precis. and optic. instr., watches, clocks	551 175	3.5	0	0	464 595	25.3	602 591	-4.5
DL Electrical and optical equipment	514 881	11.1	0	0	456 204	10.6	537 457	11.0
34 motor vehicles, trailers and semi-trailers	945 532	12.1	0	0	488 487	12.7	1 039 667	11.6
35 other transport equipment	452 680	6.8	256 576	0.5	512 433	15.9	451 337	-6.0
DM Transport equipment	873 983	12.1	256 576	0.5	496 756	13.8	1 004 538	11.1
36 furniture, manufacturing n.e.c.	503 576	7.1	0	0	350 172	7.1	758 139	4.4
37 recycling	599 414	22.3	0	0	572 988	16.6	x	x
DN Manufacturing n.e.c.	507 730	7.8	0	0	363 291	7.9	757 748	5.0
D Manufacturing	666 027	8.5	463 086	9.4	463 667	7.6	855 856	7.1
40 electricity, gas, steam and hot water supply	3 824 716	33.3	7 079 027	28.0	2 136 731	16.5	2 835 000	65.9
41 collection, purification and distribution of water	681 232	5.6	659 455	8.7	515 287	5.0	842 562	3.4
E Electricity, gas and water supply	2 630 160	28.6	4 316 344	28.4	1 648 195	12.2	2 001 693	50.1
Total industry	782 839	10.6	2 504 208	26.4	550 573	7.1	894 823	9.3
F Construction	647 301	15.3	x	x	616 824	14.1	784 078	18.6

* individual data (1 or 2 firms)

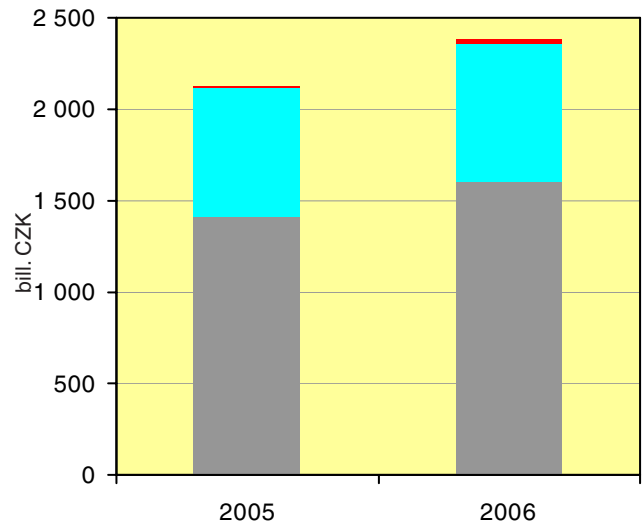
Source: CZSO, MIT

**Manufacturing Industry by Institutional Sectors
(Firms with 100 or more employees)**

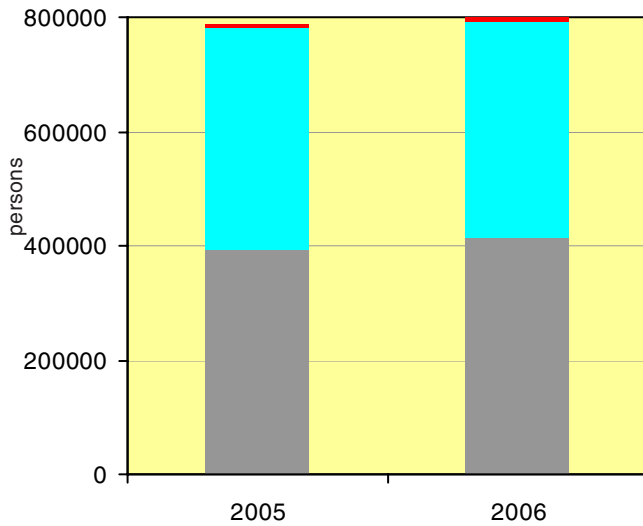
Number of Active Units



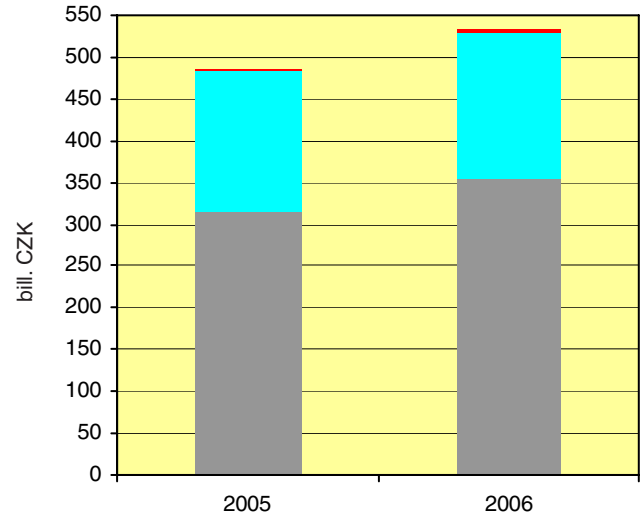
Outputs



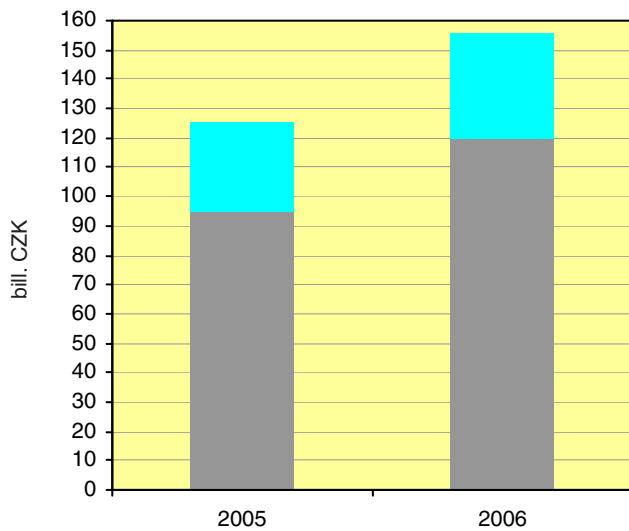
Average Number of Employees



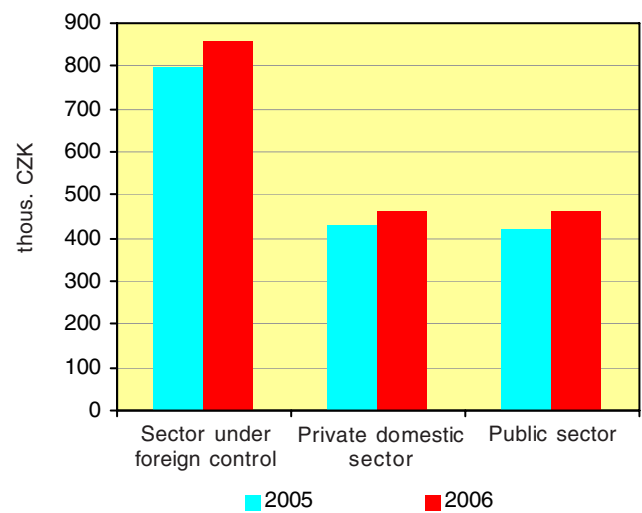
Book Value Added



Profit before Tax



Book Value Added per Employee



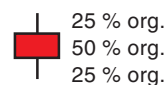
■ Sector under foreign control

■ Private domestic sector

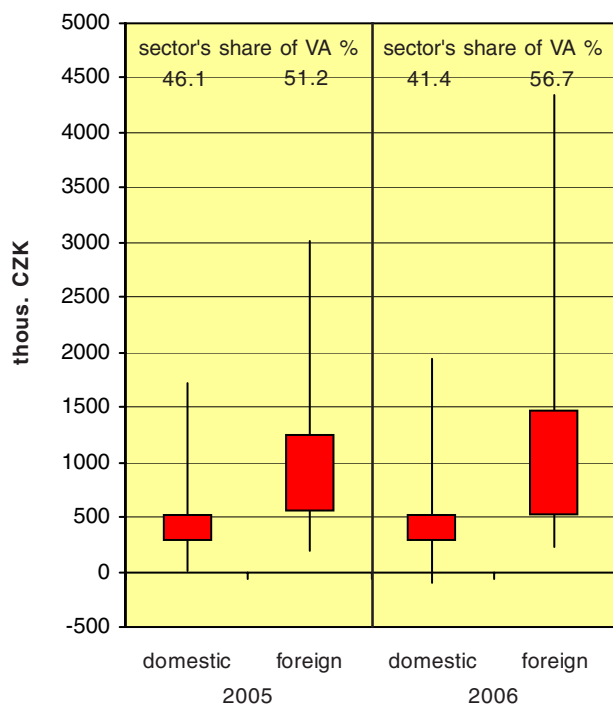
■ 2005 ■ 2006

■ Public sector

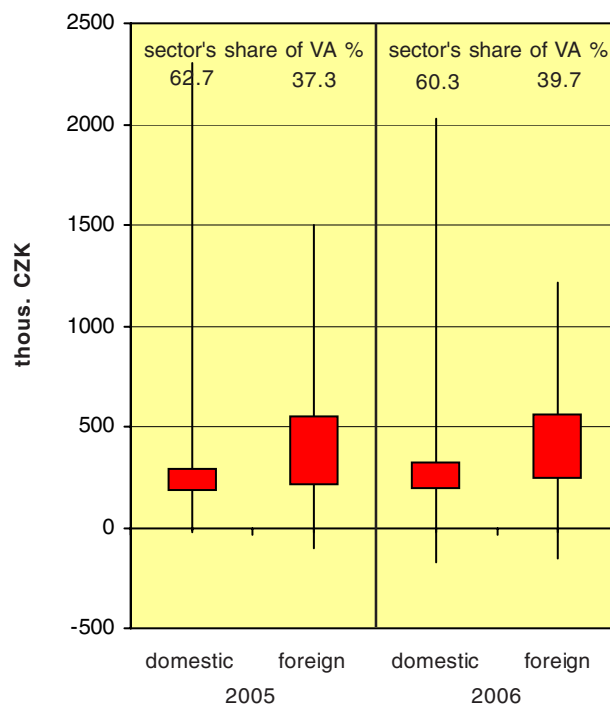
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



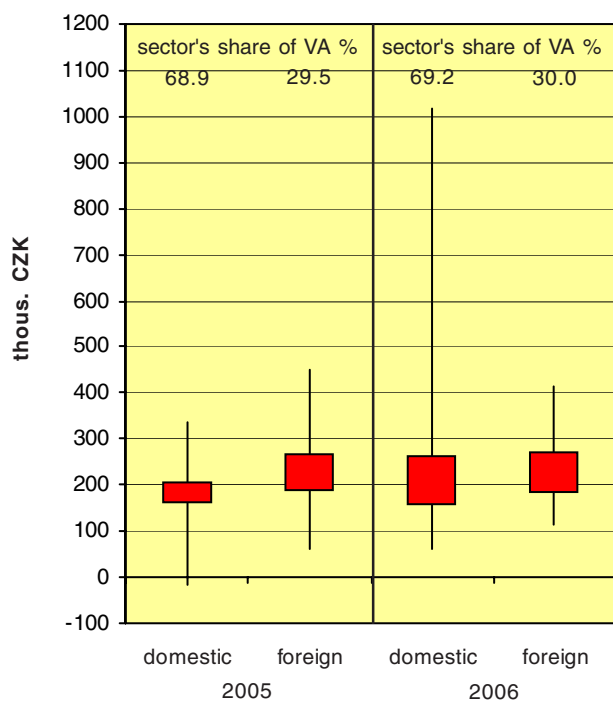
food, beverages, tobacco (15)



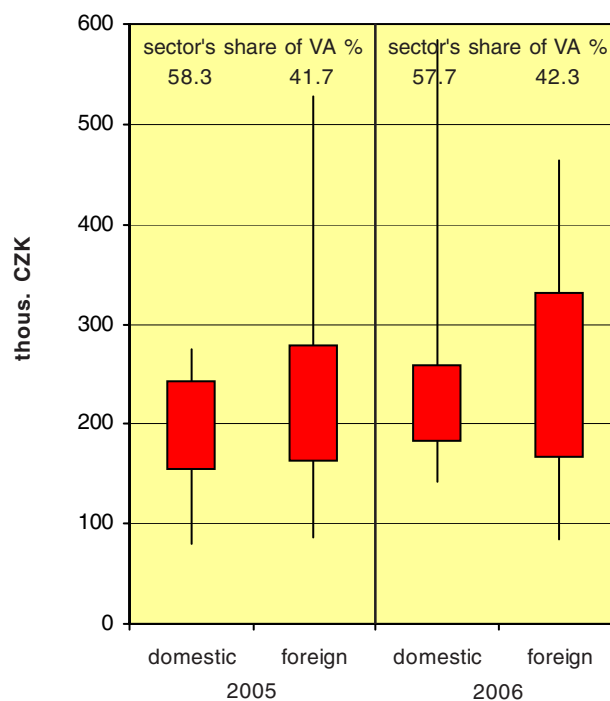
textile (17)



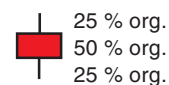
wearing, apparel, dressing (18)



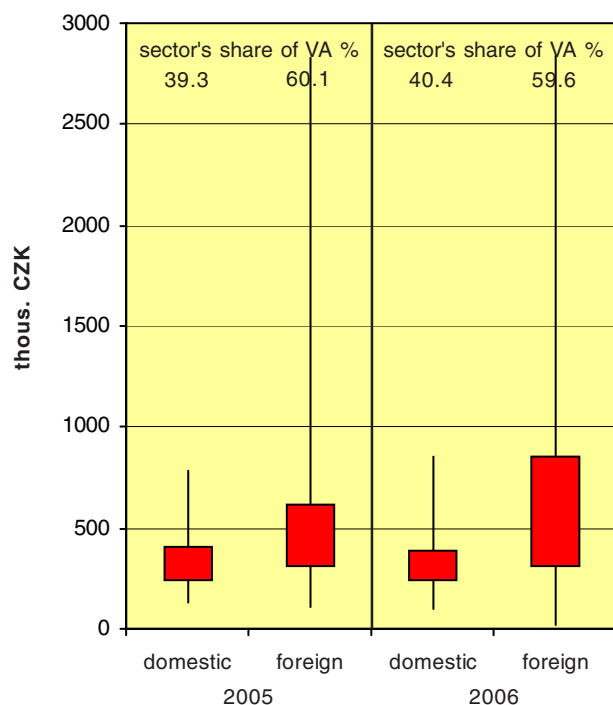
leather products (19)



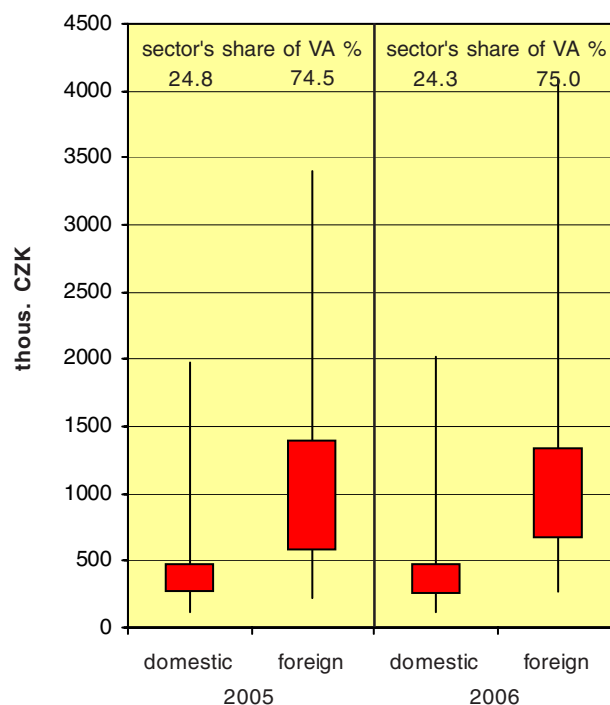
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



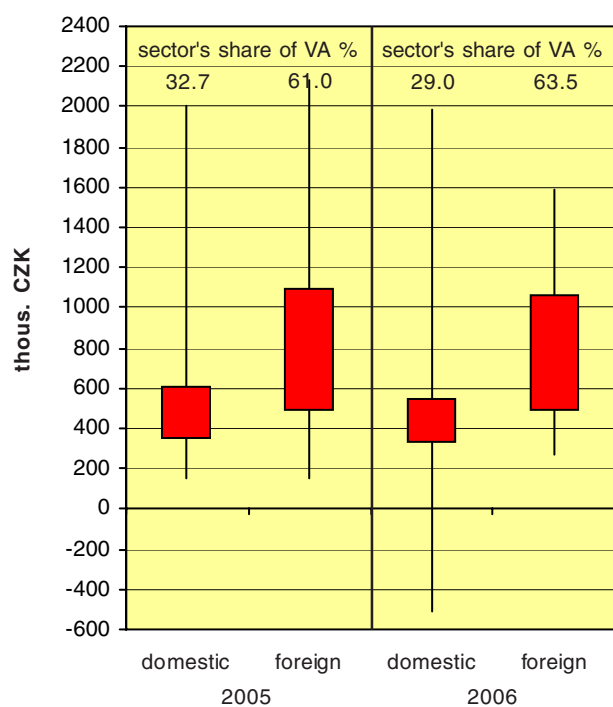
wood products (20)



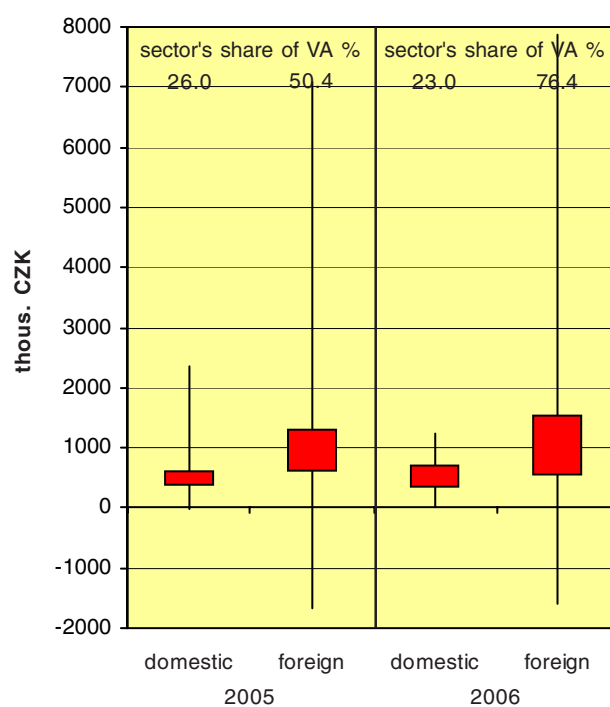
paper products (21)



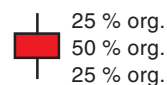
publishing, printing (22)



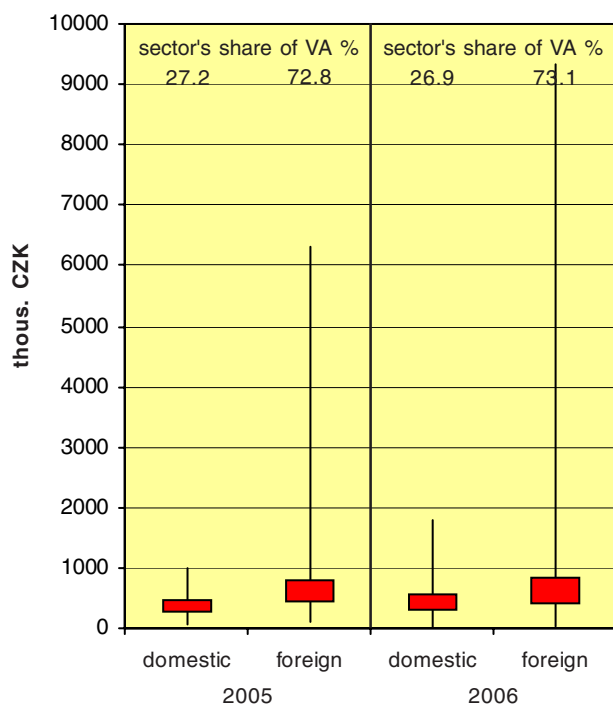
chem. products, man-made fibres (24)



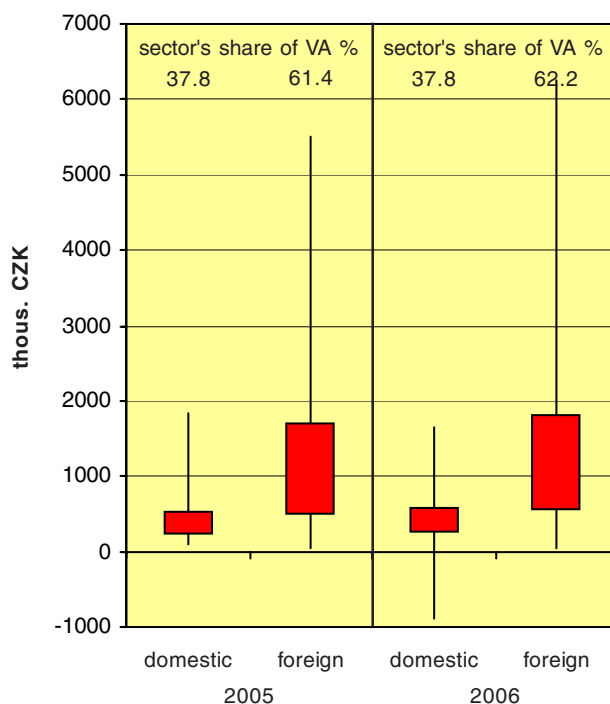
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



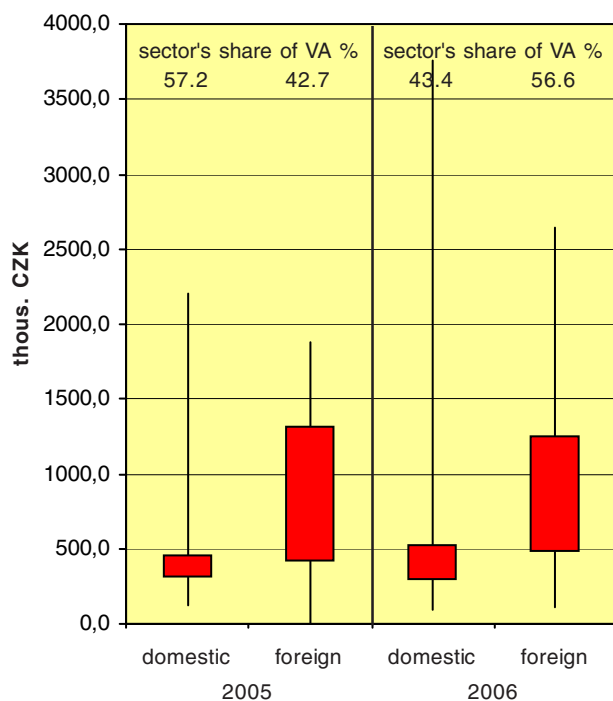
rubber and plastic products (25)



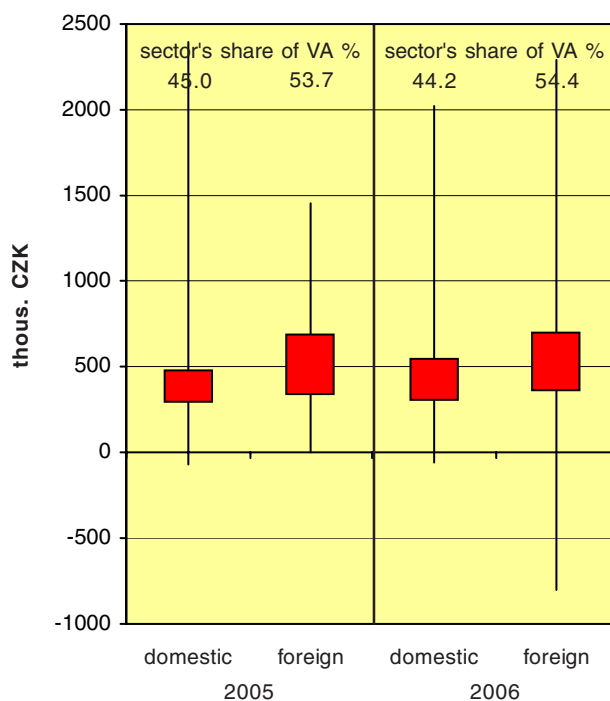
non-metallic mineral products (26)



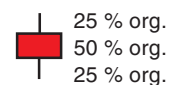
basic metals (27)



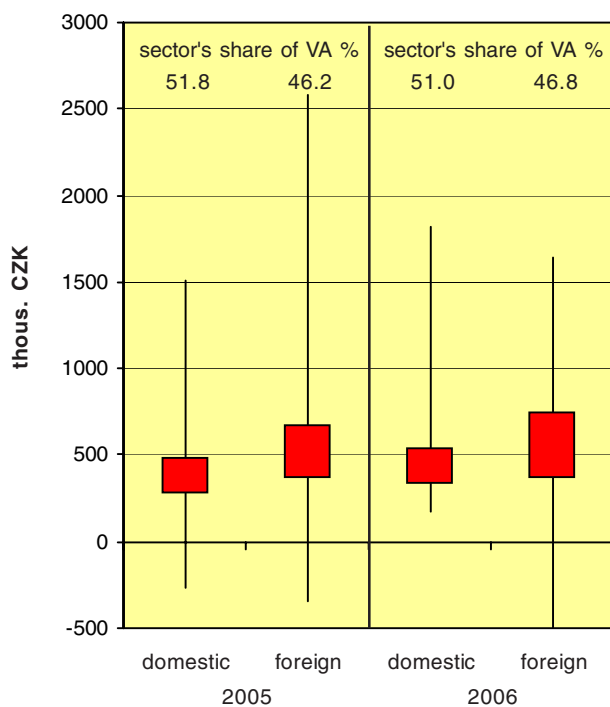
fabricated metal products (28)



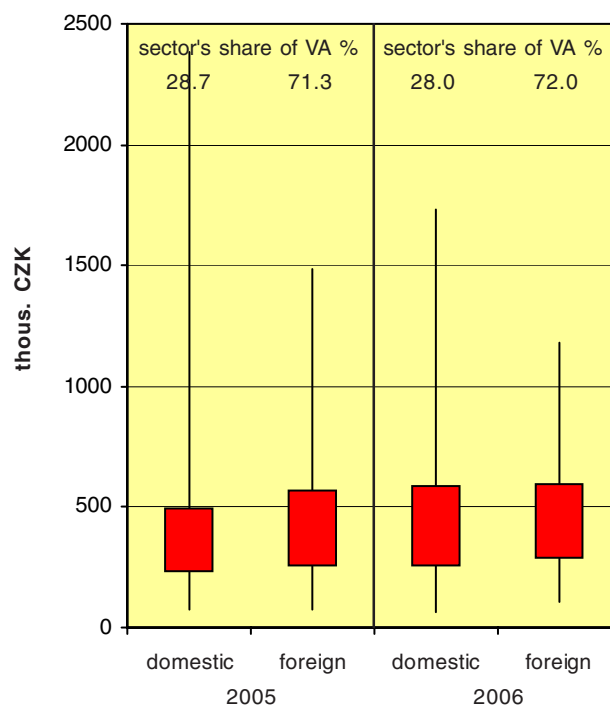
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



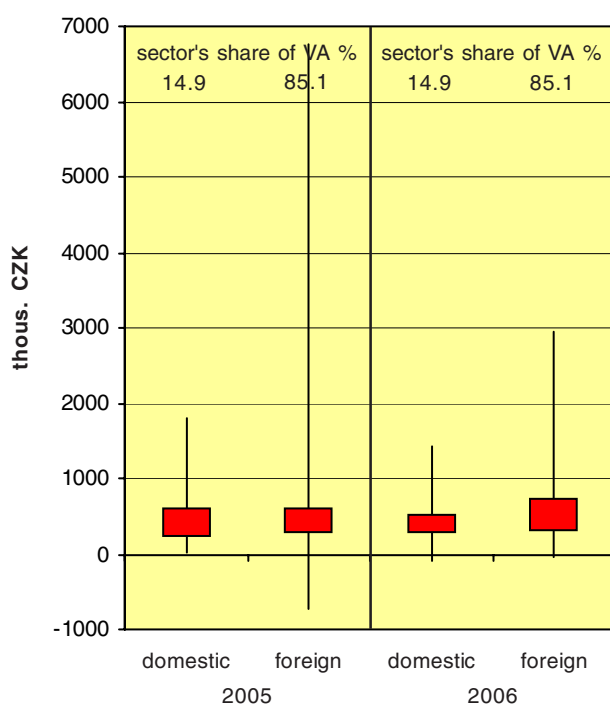
machinery and equipment (29)



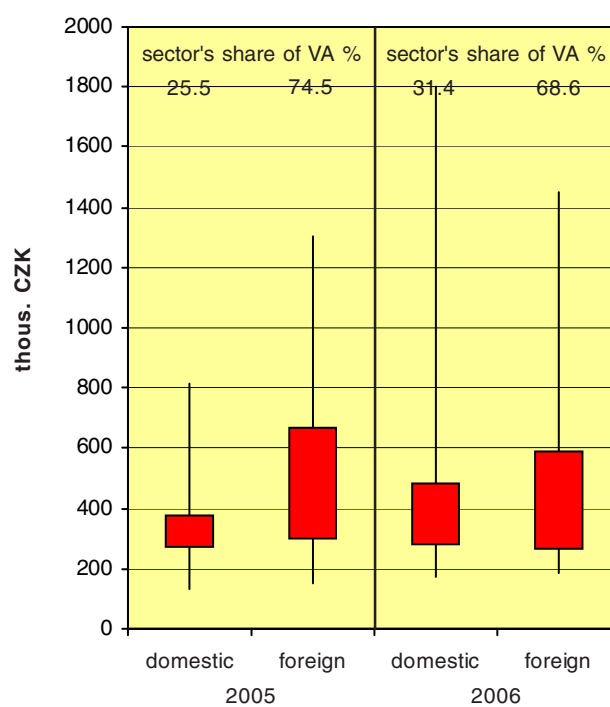
electrical machinery and apparatus (31)



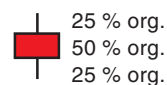
radio, television and communic. equipment (32)



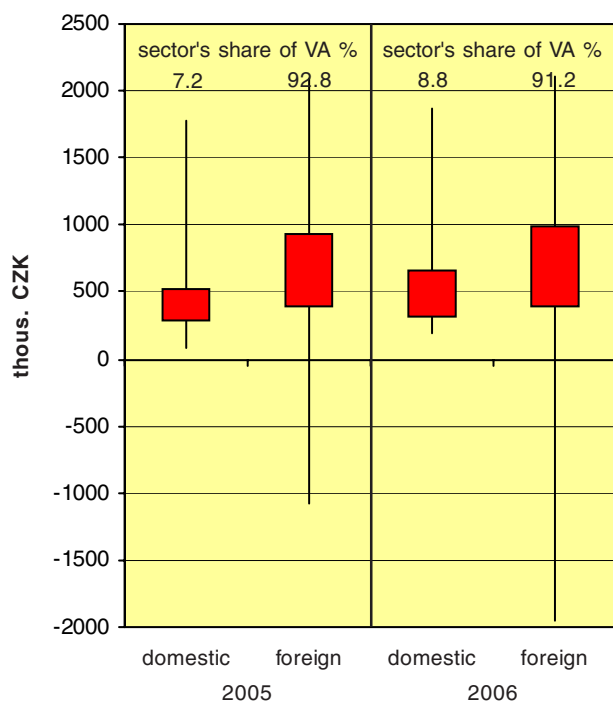
medical and optical instruments (33)



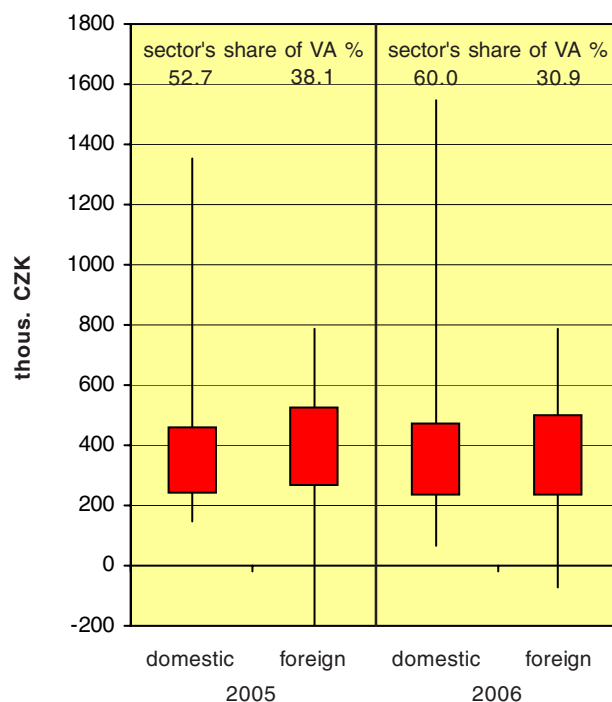
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



motor vehicles, trailers (34)



other transport equipment (35)



furniture, manufacturing n.e.c. (36)

